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# Self-Government in Yugoslavia: The Path to Capitalism?

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## Abstract

This chapter analyzes self-governing Yugoslavia in the context of capitalism. Regarding the problem of capitalism in socialist world, the practice of the former Yugoslavia cannot be ignored. The socialist Yugoslavia was predetermined to be qualified as capitalist. The Yugoslav leadership developed: (a) self-government, (b) elements of market-biased socialism, and (c) openness to the international economy or the integration in the world market. Its economy achieved remarkable results by the mid-1960s. Some notable economists compliment the results and suggest that the model is sustainable. However, since the mid-1960s, regressive tendencies have emerged that perpetuate significant social dissatisfaction. In 1968, students protested against the state of Yugoslav socialism, believing that it had absorbed capitalism. Others felt that Yugoslav socialism had not sufficiently developed market-based socialism. There were authors that argued that Yugoslav socialism had become capitalist but without capitalist rationality. In the 1970s, the *de iure* existing federation became a *de facto* confederation with closed national economies. The chapter discusses the presence of elements of capitalism in this form of socialism based on (a) dependence on the world market, (b) banks as the institutionalization of “financial mode of capital,” and (c) the existence of perpetuated unemployment.

**Keywords:** self-management, Yugoslavia, socialism, capitalism, market

## 1. Introduction

Emerging after World War II, Yugoslavia was destined to be qualified as a capitalist country. Its openness to the world market, market-framed consumption, self-management that introduced democracy to economic entities, and supremacy over the working class are just a few things that have always fueled suspicion about the socialist character of Yugoslavia. However, the same qualification was given from different sources and with different intentions: sometimes as a stigma and sometimes as a praise. The list is long: as early as 1951, a prominent Trotskyist economist Ernest Germain (Mandel) [1] wrote that the emergence of the restoration of capitalism in Yugoslavia was imminent.<sup>1</sup> In 1963, a Chinese party leadership said that there had been a “counter-revolution” and “replacing of socialism with capitalism” in Yugoslavia [2]. Paul Sweezy [3], a well-known American economist, also argued in the panorama of socialist countries in the 1960s that the existing socialist countries (except China) had opened the door to the invasion of capitalist

<sup>1</sup> Yet, we should note that Mandel believed all socialist countries to be capitalist.

content, and Yugoslavia did it as well. Now, let us do a little time traveling: Ernst Lohoff [4], a modern German Marxist, used the term “ideeller Gesamtkapitalisten” (ideal total capitalist) to describe the Yugoslav situation, that is, to represent the communist party which took care of the “social capital.”

This does not mean that the list is exhausted. The mentioned assessments definitely stand for certain elements of the historically created situation in Yugoslavia. Yet, they contain certain reductions and do not capture the *procedural* character of the existence of capitalist aspects in Yugoslavia; if it is claimed that capitalism existed *per se* in Yugoslavia and *a priori* a sign of equality is placed between capitalism and Yugoslav socialism, then some important interpretation dimensions are lost. Socialist Yugoslavia disintegrated at the end of the 1980s, and that already created the impression of *predetermination*, that is, the absence of any alternatives. However, capitalism in self-governing socialism arose as an unplanned *outcome* of various socio-economic determinations and certain conflicts that were actually the articulation of the same conflicts. Capitalism in Yugoslav socialism could not be perceived on the basis of *predetermined* paths. *A conceptual distinction should be made between capitalism and the existence of elements of capitalism*: whatever the definition of capitalism we give, it represents a kind of socio-economic completeness and wholeness.

First, the paper presents a conceptual clarification based on which we have enframed the selected problems. After that, we are going to determine two ideological foundations of the Yugoslav system (self-management and social property) and describe, but not in-depth, the characteristic stages of Yugoslav socialism which relate to the chosen topic of our work. The following sections will contain discussions of the selected moments that show strong presence of capitalist elements which truly anticipate later capitalism on the ruins of Yugoslavia (reliance on the volatile world market as the supreme arbiter of economic rationality, the supremacy of banking and financial capital over social reproduction, the presence of labor market elements). This chapter does not present empirical investigations, but the claims are supported by empirical illustrations. We will neither discuss the causes of the collapse of Yugoslavia, nor the phenomena of “imitated modernizations.” We will only treat the problem of the existence of capitalism in self-governing Yugoslavia on the basis of selected examples.

## **2. Some conceptual clarifications**

Capitalism has always been prone to different interpretations. Max Weber, Werner Sombart, Joseph Schumpeter or Milton Friedman formulated the essence of capitalism in different ways. Moreover, capitalism is currently experiencing renewed and heterogeneous interpretations, some of which have even been questioning the existence of a “unitary definition of capitalism” due to “heterogeneity” [5].

Nevertheless, when discussing about Yugoslavia, we must turn to the author who is valued as the supreme landmark in terms of self-governing socialism, namely, Karl Marx because in this way the effects can be measured immanently, that is, we confront Yugoslav socialism with our own ideological self-understanding. However, Marx did not use the term capitalism as much as he referred to the “mode of capitalist production.” In his perspective, structural determinations of capitalism imply certain social relations which mean that: (1) there must be wage labor which conditions (a) that direct producers are separated from the means of production and do not make investment decisions and (b) there is exploitation of direct producers in the sense that those who have the means of production command the use of labor, that is, achieve “exploitation as domination” [6], (2) there is competition between

capital in the market, (3) “monetization of the economy” and the “financial mode of existence of capital” [7], and (4) ideological infrastructure that supports structural determinations.

Socialism implies the appearance as well as a set of different intervention practices that abolish the specified conditions of capitalism. The same practices imply a synthesis of different interventions both in the field of ideology/rights/politics (e.g. disempowerment of property rights) and in the economic domain (e.g. creation of nonantagonistic relations in production, creation of socio-economic conditions for appropriation of surplus labor of direct producers). Therefore, socialism implies a deep-seated political-economic transformation: that was the intention of the Yugoslav communists as well. Yet they (like many others) understood socialism as a “transitional state” between capitalism and communism, that is, as a process that led to the goal of history. In other words, socialism was viewed *both* procedurally *and* teleologically: the communist party was considered to be the one that was “supposed to know” the paths of history leading to the desired goal.

At least two things need to be clarified here.

*First*, although the ideologists of Yugoslav self-governing socialism were not clear about this, it must be said that capitalism and (self-managing) socialism exist in the *same* conceptual field. Both are based on what the Yugoslav communists called “commodity-based production.” However, the same communists projected the possibility of turning commodity-mediated collective organizations into a *means* that could be harnessed in the course of teleologically understood history. Successful *instrumentalization* of the commodity-principle is the main prerequisite for socialism not to regress into capitalism. Socialism represents a certain relationship between fine-tuning of *instruments* (commodity/market) and anticipated *goals* (communism). It is important to mention that the criticism that affects the ideological projections of the Yugoslav communists from leftist perspectives centers on that they managed to realize legal and political interventions with respect to the fabric of society, but not epochal changes in terms of transforming the structure of productions.

*Second*, Yugoslav ideologists like Edvard Kardelj [8] referred to *social capital*<sup>2</sup>. The semantic context of this term brings us back again to Marx, who in Volume III of *Capital* wrote about the self-transformation of capital (about joint-stock companies as forms of socialization of capital) “within the capitalist mode of production itself.” “Cooperative firms” and “joint-stock companies” are signs that capitalism has come to its own “superseding” independently of the property rights of the means of production, which means that “workers in the association become their own capitalists.”<sup>3</sup>

The same stands for the Yugoslav communists. The above given arguments indicate *the existence of capitalism and socialism on the same soil*. Does this mean that there is capitalism in socialism or vice versa, socialism in capitalism?

Johanna Bockman [10, 11] raised a provocative thesis stating that “neoliberalism”<sup>4</sup> does not only have transnational roots but also “leftist origins.” She explicitly mentions Yugoslav economists as interlocutors who, because of greater intellectual freedom in the former Yugoslavia, had the opportunity to familiarize themselves with the neoclassical logic of Western economists and, during the intensive communication and scholarship, thus also became acquainted with the appropriate economic techniques. In addition, more liberal worldview that emerged

<sup>2</sup> This term is not be equalized with “social capital” popularized by Pierre Bourdieu.

<sup>3</sup> See [9], quoted by Jossa [60]. Jossa is a rare theoretician who believes that if capital goods are not owned by capitalists the “system is non-capitalistic” because it “reverses the capital-labor” relation. He does not use the term of self-management as much as the term of cooperatives for which he claims to be a new form of “mode of production.”

<sup>4</sup> On neoliberalism, see [12].



in Yugoslavia after the break with Stalin resulted in systematic translations of economic literature in the West. This would then mean that the discursive constructions of liberal economists in Yugoslavia, who were attacking the system anyway, were an inevitable “source” for the renewal of liberal capitalism. Or it meant that one of the most famous Yugoslav economists (who regularly used the neoclassical technique), Branko Horvat, a theorist of self-management, *malgré lui* contributed to the emergence of neoliberalism. Bockman is not surprised that the Yugoslav self-governing enterprise has become an exceptional subject for various economic theorists in a capitalist perspective: neoclassical discourse has followed with great interest the models of employees being “their own capitalists” [13].

Bockmann’s thesis is problematic as it overemphasizes neoclassical discourse (which cannot be equated with Hayek’s Austrian discourse who played a significant role in the reshaping of the framework of today’s “neoliberalism”). Moreover, changes of socialism toward capitalism or the affirmation of capitalism can be understood only by measuring the relationship between *structure* and *agencies* in Yugoslav society. The proposition that local economic discourse could contribute to the emergence of “neo-liberalism” should not be questioned, but it is of greater significance to notice that (at least if we accept that we can talk about embryos of “neoliberalism” in Yugoslavia) different social agencies were the “bearers” of this constellation.

However, there is an idea in Bockman’s thesis that is important to us: it actually suggests that there is *ante litteram* capitalism on a discursive level. As for the relevance of discursive articulations, we can say that discourses have a function of revelation. Indeed, if we take a look at, for example, some economic and political discourses in the 1960s (regardless of Bockman), they actually anticipate transitional discourses of the late 1980s when, after the collapse of self-management, there was official transition to capitalism and ideology propagated definite supremacy of capitalism with respect to socialism. Or, if we evaluate the various economic discourses in the 1960s regarding the international market, then we see the absolutization of such export orientation, which is also emphasized in the post-socialist order as a panacea.

Broadly speaking, Bockman’s argument is the basis for our further argumentation: the “transition period” was burdened with the “*recurrences of the past*” as ideologists said many times before (hence, there is always a path-dependent logic that determines the present) and at the same time it was determined by the elements of *future* that later became unambiguously “capitalist.” Thus, the “transition period” develops *diachronic* time sequences as well as *synchronous* temporality. It is a temporal framework in which we can thematize the presence of capitalism in socialist Yugoslavia.

### 3. Ideological fundamentals throughout the history

There were two fundamentals of the system: self-management and social property. In both cases, the system saw itself as a pioneer [14]. The emergence of capitalism in Yugoslavia can only be understood as an *expression of the collapse* of the *synthesis* between self-management and social property.

In a nutshell, self-management meant that the “working man” in various associations was the main subject of the economic domain and the axis of all life in general [15]. At the same time, self-management as the microfoundation was the basis for macro-construction, that is, for the “self-government society.” There was, therefore, an intention to expand self-management to the entire society, to transfer the norms of labor socialization to other (say, communal) levels, too.

Self-management was the *negative* fundamental of the system: Yugoslav socialism was considered to be significantly different from both the Soviet type of state socialism and the organization of labor under capitalism. Self-government

was supposed to realize analogous goals as well as capitalism and state socialism (economic rationality, productivism), but in a significantly superior way. Self-management goals can accordingly be classified in the following modes:

- a. improving efficiency while creating the necessary conditions for calibrating economic motivations—self-managing enterprise overcomes various deficits of capitalist enterprise in terms of efficiency (according to some data, the total productivity of production factors in the period 1953–1965 in capitalism was 3.3, in state socialism it was 3.0, and in self-management it was 4.7 [16], p. 170). Thus, modern economic discourse recognizes in capitalism the acute problem of “incomplete contract” [17] in terms of organization of production and control by capitalists, but in self-management this problem disappears as there is no need for constant supervision of workers who are “their own capitalists”; they are capitalists with the right motivation but without capitalism;
- b. the achievement of just distribution and egalitarianism, starting from the micro to the macro level (the Gini coefficient in the mentioned period was 0.40 in capitalist countries, 0.26 in “statist countries,” and 0.25 in self-management) [16], p. 171; self-governing socialism wanted the same thing as transformed capitalisms after World War II, the prosperity, but in a different way;
- c. some theorists and strategists even had the idea of abolishing the division of labor;
- d. in the philosophical sense, the realization of “humanism,” i.e. disalienation, or overcoming various forms of alienation in capitalism.

The conception of self-management was, in certain aspects, on the ground of capitalism, but for the purpose of transcending to the capitalism, and this can be proved with the thinking of Horvat who has already been mentioned here (he once managed federal Yugoslav planning institutions to become an “internal opposition” to the system). It is characteristic that, unlike liberal economists who believed in the late 1980s that entrepreneurship was possible only with the existence of consistently derived private property (according to the Austrian concept), Horvat insisted on self-management until the end of socialism as an adequate framework for *collective entrepreneurship* [18, 19]. Still, this concept of “*collective as entrepreneur*” does not exclude personal initiative: on the contrary, this way self-management surpasses capitalism, which enables far-reaching inclusion of personal initiatives in the collectivity. Self-government in the context of “commodified production” aimed to establish efficient and fair use of capital—but always without capitalism.

Social property was more difficult to interpret because it had far fewer predecessors than self-management. We can understand social-property as a critique of private and group property in the sense that social-property is inclusive in relation to the exclusivity of the mentioned forms of property. Strictly speaking, “society” was the bearer of property and this clearly had an anti-capitalist trait, but it was not easy to operationalize in the context of the increasingly intensifying market in Yugoslavia. A solution was found in the separation of economic and legal aspects of property, which is again (at least partially) analogous to a joint-stock company in capitalism where shareholders are the legal holders of property, but only management can establish “economic control.”<sup>5</sup> It can be said that the combination of self-management and social-property had double function: (a) finding a unique Yugoslav position toward capitalism and state socialism and (b) overcoming the

<sup>5</sup> See the discussion on property rights and appropriation [20–22].

antagonism between capital and labor as well as divergence between socialized economy and private appropriation<sup>6</sup>.

Self-management was gradually introduced after the conflict with Stalin in 1948<sup>7</sup> and, as often described in the literature, with a great burden of the past it meant: (a) the legacy of pre-war Yugoslavia which was a peripheral capitalist country, (b) great destruction in World War II, brutal destruction of the existing capital which caused a lack of capital in the context of accelerated industrialization, (c) high disparities, that is, divergences in the development between different parts of a country with a federal structure. The Yugoslav communists knew that the weak working class, which was necessarily recruited from the peasantry in the agrarian country, lacked cognitive resources as well as habitualization for the realization of self-management. However, they assumed that the self-management processes could involve learning-by-doing principle due to the absence of time for education. Alternatively, we can say that the practiced self-management is not only a combination of goal-rational actions but also the creation of “endogenous preferences,” that is, the creation of subjectivities for individual economic initiatives. Worker subjectivity is a dynamic category<sup>8</sup> and it can change depending on institutional conditions; dynamic self-management will just develop harmony between social justice and effectiveness.

For the genealogical approach, it is purposeful to adopt the well-established scheme<sup>9</sup> that shows briefly the dynamics of self-management with the macroelements relevant for our analysis:

- a. 1945–1948: industrial take off; pure imitation of state socialism including state-property (in 1948 the industry was 100% state-owned); the plan directly and as legal imperative directed the economy, orders the proportions;
- b. 1948–1965 [27]: introduction and affirmation of self-management; double decentralization both in terms of territorial organization and in terms of basic economic entities; existence of significant economic growth; plan/market axis in the sense that the plan sets the “basic proportions” of economics, however, self-management was never implemented consistently and, in addition, it always carried an inherent sign of the politics “from above”; at the beginning of the 60s, the first signs of exhaustion of the great industrial take off from the 50s appeared, that is, the cycle that brought primarily (unrepeatable) high growth was exhausted; the necessity of choosing a new direction in terms of economics, which would create a reform in 1965 (reforms were “endemic” in socialism anyway, as Adam Przeworski says);
- c. 1965–1974: the inflammation of hard crisis (industrial production grew at a rate of 12.7 in the period 1952–1964, and at a rate of 7.1 in the period 1964–1978 [28]); strong turn toward the world market especially in search for foreign

<sup>6</sup> Jossa [23] believes that there is a question “Which is the fundamental contradiction of capitalism: the capital-labor polarity or the contrast between socialized production and private appropriation?” Yugoslav self-management was the answer to that question.

<sup>7</sup> We are not starting an otherwise important discussion here about the motivation of introduction for self-government, and we are not arguing whether the motivation was idealistic, legitimation-based (establishing of something unique compared to state socialism), or opportunistic (transfer of responsibility to working entities), i.e. positioning the party in internal power configuration.

<sup>8</sup> For example, some theoreticians [24] reject market socialism based on that because it assumes constant preferences.

<sup>9</sup> This periodization could be referred, for example, to [25, 26].

aid; the modes of introducing market categories gave enormous power to the banks; a break in the “plan-market axis” in terms of the gradual disappearance of comprehensive planning; stabilization of high unemployment level; survival of regional disparities; high rate of inflation and significant social polarization; strong presence of elements of capitalism but without the appropriate capitalist rationality that would “domesticate” the results of deregulated markets; loss of socialism contours;

d. 1974–1980: constitutional completing of national states of the existing federalism with the modes and effects of confederalization; strengthening of economic sovereignty of federation constituents; “nationalization” of different economies with mimetic reheating of political conflicts between national oligarchies (politology employs here the term of “polyarchy”); exposition to advancing international economic crisis.

e. 1980–...: “perpetuation of Yugoslav crisis”; condensation of aggressive economic nationalism among the entities of federation leading to final disintegration; futile efforts to reconstitute Yugoslavia; openness to capitalism completed.

#### **4. World market as a generator of capitalism in self-governing socialism: dependence**

Capital circulation in the world market represents a significant source of capitalist elements in socialist countries. However, we should demystify a myth that persists in a permanent autarchy of socialism in which strong ideology has control over the economic communication with capitalism system: this bears no reality in the context of “red globalization” [29, 30]. Yugoslavia appears here as an exception, but with regard to it, we can only discuss about gradual differences in overall socialist world.

In any case, it is true that, as early as in 1950, Yugoslavia rapidly integrated into the world capitalist system, which was under the domination of the victorious USA. There were different forms of accession: integration into economic institutions of “liberal internationalism” (Coal Committee of the Economic Committee for Europe, loans from the World Bank, the IMF and the US Export–Import Bank, as well as British banks [31]), bilateral treaties; it was indicative that there was a very favorable balance of payment in 1948 (the period which, according to many authors, is believed to be the period of autarchism). The following year, there were “efforts to find new markets in the European Economic Community and the United States for... minerals... and timber; agreed to the dinar-dollar exchange rate...so as to obtain IMF credits” [32]. These moments are only examples, but they are representative enough to demonstrate that self-governing Yugoslavia was part of the capitalist world system and that it acted *in compliance with capitalist norms*.

However, there are phases that shed light on capitalist aspects: by 1965, although external financing was important, there was a certain balance between internal and external sources of financing and the debt was 1.2 billion of dollars until that period [33]. It can be said that there had been “shallow integration” by that time despite gradual integration into the world market determined by capital, and that it was not until 1965 that “deep integration” took place.<sup>10</sup>

<sup>10</sup> For these notions but in other perspective, see [34].



Changes in integration in capitalist world market were depended on the processes in the early 1960s. Namely, the economic growth as well as the growth rate was slowed down, and it was obvious that the development direction should be reconstructed. One group of theorists and politicians, who emerged from liberal milieu, focused their attention to the world market as an ultimate criterion of economic rationality. They drew attention to the fact that the products of self-governing companies should be tested, in other words, the results of self-managers should be proven in the market with dominant capitalist rationality and absence of communist ideas. In addition, the highest-level political officials also warned about the necessity for reorientation in a domain such as tourism in order to attract foreign investments [35]. Other theorists and politicians (in scientific literature referred to as “developmentalists”) have emphasized the importance of a phenomenon commonly referred to as “import substitution industrialization,” which would imply a distance between Yugoslav economy to the capitalist dimensions of world market and focus on national resources.

The 1965 reform brought the triumph of economic liberalization. It can be said that this also meant a certain victory for economists and politicians of liberal provenance who emphasized the inevitability of the competitiveness of the Yugoslav economy in the world market (exports in 1970 amounted to about 15.1% of GDP [36]). A number of typical deregulatory measures were adopted with the aim of improving efficiency of the foreign trade system, devaluation of dinar was realized, and as the official documents emphasized “free disposal of foreign exchange,” “foreign exchange self-financing,” and “interbanking foreign exchange market” should be achieved [37]. Import was also increased and in the period between 1961 and 1965 it was covered with export in the range of 74% and then the same coverage was gradually reduced [27], p. 104. An institution, which was completely unknown in socialist countries, appeared as an expression of new orientation, namely, joint business venture (in accordance with the legislation, there was a certain restriction that “the foreign partner could not have more than 49% of the total value of joint investments”). Simultaneously, joint ventures were unknown source of financing as well as the form of cooperation with foreign capitalist companies for profit purposes. In the period between 1967 and 1980 “joint ventures were signed to the value of 49,255 million dinars, of which the foreign participation amounted to 10,264 million dinars or 20.74% of the total” [38]. Actually, the level of investment made by different foreign multinational companies (their structure reflected the structure of foreign trade of Yugoslavia with a significant presence of Western Germany and USA) varied but it represented a significant source of financing. Therefore, it can be said that with certain restriction, self-governing socialism found the source of financing based on the profit criteria; therefore, it can be said that Yugoslavia, following market-economic rationality, used loans for investment and not for consumption.<sup>11</sup>

However, despite the results (for example, state property definitely disappeared with the reform and became social property), major problems arose. The system of the federal state was decentralized in such a way that *the possibility of joint-federal planning* was increasingly lost, that is, there was a fatal fragmentation between the members of the Yugoslav federation who were divided by nationalist interest. Decentralization is a principle that can be justified, but at that time it acquired a pronounced disintegration-nationalist meaning: the focus was on the work that merged the nationalist affirmation of justice with market criteria. Favoring of the market often had a national character, the perspective of those who benefited from

<sup>11</sup> Or not for consumption, as other real-socialist countries did; on this relationship between Yugoslavia and the other socialist countries, see [33], p. 47.

inclusion in the world capitalist system. Moreover, it should be noted that the IMF, which of course implemented the norms of capitalist rationality in terms of debt, acted as a “promoter” of capitalism but internal decentralization of Yugoslavia as well<sup>12</sup>. In the meantime, Yugoslav economy became *deregulated* in significant elements losing chains between market and plan; the federation apparatus was losing its competencies and it could eventually manage only the monetary flows. It entered volatile world market with strong competitive pressures, but with subsequently drastically increased American interest rate, which resulted in the countries in debt being in undesirable situation [40], or with oil price shocks, Yugoslav economy was literally unprotected from contingent shocks of the world system. Some Yugoslav economists metaphorically called Yugoslav economy a *laissez-faire* system indicating to the absence of planning dimension, Rusinow [41] even used the term “*laissez-faire* socialism” ironically.<sup>13</sup> During the 1980s, which were important because the world economy was also restructured and profound transformations were commonly associated with the offensive of Ronald Reagan and Margaret Thatcher (who demolished post-war Keynesian compromise), Yugoslav economy was strongly affected.<sup>14</sup> Yugoslav economy with aspects of deregulation competed in the world market, its actors had to adopt the roles of capitalist subjects, and at the same time, Yugoslavia as a whole was left with and without *capitalist resilience* regarding the relationship between market and plan—we must not forget that the plan exists in capitalism as well (corporate planning), although it develops in a different way compared to socialism. Yugoslav communists wanted “endogenous planning”<sup>15</sup> (as opposed to imposed exogenous planning), and in the 1970s and 1980s they even legally forced basic economic units to implement planning, but planning in Yugoslavia became less and less possible. Socialism projects planning as a control of economic flows; planning is a guarantee to reduce waste, and self-management promised virtuous cycles between plan and market—however, these projections increasingly failed.

## 5. Banks as the institutionalization of “financial mode of capital”

As we have already seen, there were various forms of financing economic activities in the 1960s and they were related to the profit motive, that is, to capitalist incentives, with the constant intensification of dependence on the world market. However, banks in Yugoslavia played a special role in the entire constellation in the 1960s. The background to the problem was the argument about adequate sources of financing because some Yugoslav actors, at the same time, proposed institutionalization of the capital market as in capitalism, which would imply a consistent market distribution of funds for investment purposes.

The capital market was often a subject of various discussions regarding the market socialism. Namely, the advocates of market socialism believe that it is possible to develop market but without transition into capitalism, that is, it is possible to affirm market *without* capitalism (unlike those critics who believe that market socialists are inherently “capitalist roaders” [44, 45]). The capital market

<sup>12</sup> On this, see [39], p. 123, and [31], p. 169, 170.

<sup>13</sup> There were efforts later to solve these problems with a specific system of bargaining where the firm was no longer an operating unit but a “unit of bargaining,” see [42].

<sup>14</sup> This paper does not focus on the breakup of Yugoslavia which can be interpreted in different ways. In Yugoslavia, the debt of the country is often exaggerated because it was not more than third of the total product (see [36]) which means that interest rate did not account for high percentage of the GDP.

<sup>15</sup> For the concept of endogenous development, see [43].

can be rationalized in the system in which there is a synthesis of worker-control and decentralized market.

The capital market was not introduced in Yugoslav self-managing socialism. The argument for this was that, in that case, a self-manager would just be a pure “shareholder” of “social capital.” At the same time, liberal economists discussed about that as being a symptom of a significant problem because the expansion of real income could not be converted into investments as it was converted into personal consumption and status of goods. This constellation encouraged some researchers to claim that Yugoslav self-management belonged to the sphere of “market socialism” [32], p. 169, due to the lack of capital market. The consumer market articulated personal consumption based on the logic of prices; there was a significant liberalization of the price mechanism in foreign trade as well, but the market mechanisms and allocative efficiency of the market were not applied in production factors. It is interesting that there is a belief even by the critical left that it was a mistake to give up on the introduction of the capital market [39], p. 291, because with appropriate infrastructure the engaged self-managers could rationalize the distribution of funding sources and control the use of resources exposed to irrational spending, that is, waste of resources. The result of this logic is that the capital market would enable rational use of social capital, which would finalize the idea regarding the targeted use of capital, but without transformation into capitalism. Conceptually, this argument emphasizes that it is completely wrong to think within the framework of a rigid dichotomy between plan and market, that is, the fact that there was no plan in Yugoslavia as coercive encompassing of economy does not mean that it represented market socialism.

However, coexistence between market and socialism has never been present without certain tensions. Actually, it was this context that the banks appeared in the 1960s as *exclusive* financiers and as financial entities in the absence of capital market. Banks, as financial institutions, did not have earlier a constitutive role in financing investments in Yugoslavia, they were simply a part of “bureaucratic planning”: they did not prevent “irrational” allocation of resources, nor they could sanction “insolvencies.” However, intensive liberalization in 1965 resulted in banks being analyzed from a new perspective. Actually, they were supposed to become an organic part of the “integrated self-management system” and achieve harmony between market and self-management.<sup>16</sup>

Commercial banks began to operate in accordance with capitalist norms, that is, they could borrow from the banks abroad and take deposits in foreign currency, thus being able to finance domestic companies and mediate between savings and investments [36], p. 399. The reform of the banks was intended to: (a) consequently complete the decentralization process that took place in Yugoslavia at various levels, (b) ensure price stability, and (c) prevent the supremacy of any institution that finances the Yugoslav self-managing economy. In other words, the territorial and functional organization of the banks was supposed to ensure the final triumph of self-management, that is, the victory of the working man who mastered the entire social reproduction. The self-managers actually gave a part of the “social capital” to the banks in order to rationalize the allocation of resources—that was the official argument.

However, if we try to understand the intention of financing investments and transfer of savings into investments as a “financial root” of self-management, then it can definitely be said that the reform failed. Banks in fact became superior to self-managing entities by becoming dominant managers over significant segments of

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<sup>16</sup> For a detailed account, see [46]. See the analysis of Yugoslav experiment in the light of Currency-school in banking here [47].



“social capital” allowing them to establish control over self-governing entities, even to “blackmail” self-governing actors. “Banking oligopoly” (known in the literature) became a relevant social phenomenon that soon became a political problem. This is proven by data: banks’ funds in financing investments were about 7.0% in the period 1952–1958, but in the period 1964–1971, the same percentage was 30 to 41% [27], p. 99. Therefore, it should be added that “joint work” increasingly depended on financing based on foreign funds: in the period 1971–1975, foreign sources of investment increased to 28% [48].

Banks were criticized many times and most of those criticisms were political and were addressed to monetary technocracy in banks. However, the mentioned technocracy (which has been criticized many times for being “alienated” from joint work) just implemented rationality norms in the newly developed situation. In fact, it seems as if, at this stage, the discourse of differentiation between capitalism and socialism is reversed. Namely, if we were to analyze the language of the debates of that time, then we would have the impression that the discussions were conducted in a discursive perspective or of the *Finance capital* of Rudolf Hilferding (1910), or in the perspective of later and present elements of “financialization.” In fact, there were aspects of *both* retrospective and anticipatory forms of financial capital in Yugoslavia.

In Yugoslav socialism when self-criticism always had strong forms, certain influential actors (such as Kardelj who is already mentioned here) analyzed the penetration of the banking capital as a prelude to capitalism. So, it should not come as a surprise that the measures adopted in the 1960s were *homologous* to the economic-political measures realized during the transition in post-socialist countries in the 1990s (control of public finances for the purpose of curbing inflation, etc.) and other implemented measures of economic policy that *anticipated* later transition into capitalism (relying on IMF loans, encouraging of exporting-based economy, “restrictive monetarism,” cutting of import and budget, or lessening of welfare provisions, etc.). In fact, the same measures can be compared with the orientation schemes of late transition to capitalism. *Capitalism was structurally present as anticipation.*

## 6. Unemployment: elements of capitalist labor market?

In 1965, a dissemination of certain market criteria (in the sphere of housing construction<sup>17</sup> in the domain of service activities, etc.) was welcomed. Consequently, certain forms of social differentiation were intensified resulting in the destruction of egalitarianism as a socialist principle. The system made efforts to regulate income differences within the firm, i.e. the range of income, which provided certain forms of intra-firm egalitarianism, but the deregulated market created different forms of “rents” (which also implies different forms of inequality and exploitation).<sup>18</sup> Self-management socialism raised its flag which wrote “reward according to work” (this form was later changed and became “reward according to the *results* of work” [39], p. 345, which implies different perspective), but the “system of rents” created such situations in which income did not depend on work but on the branch of economy in which a “self-managing worker” performed his activities (locational rent). There were forms of intra-firm interest, but the workers in certain firms

<sup>17</sup> Only certain market criteria because even in the 80s it was lamented that everyone should pay for housing investments; however, only small number of beneficiaries used them. Actually, there was still no market basis for the housing construction.

<sup>18</sup> It was the request of Diane Flaherty [49].



defended their own interests without respecting the interests of the working class as a whole. Relevant research indicated a tendency of agents of individual firms to behave as subjects of capitalist firms, namely, as agents of atomized firms with conflicting interests (this allows us to discuss about “fragmented” and “atomized” self-management). Although some research showed that “competitive pressures” in self-governing company was “relatively weak” [45], p. 314; [50], p. 243, in comparison to the capitalist firms, this did not imply expansion of solidarity in the form of socialist egalitarianism. *Solidarity did not overwrite atomized interests*. In capitalism, “choice in the small does not provide choice in the large”<sup>19</sup>, which means that there was a structural possibility for individual rationality to be converted into “collective irrationality” (Przeworski), or into collective myopia, and Yugoslav self-governing socialism underwent that change.

A special attention here should be paid to unemployment. It is certain that it was connected with the mentioned reform as it can be seen from data: the number of unemployed people in 1965 was 265.000 and in 1968 it was 315.000 [27], p. 105. Simultaneously, the unemployment rate increased dramatically in the underdeveloped countries. In Macedonia, which was part of Yugoslavia, the unemployment rate in 1952 was 6.3%, in 1965 it was 13.5% (with a tendency to increase), and in 1974 it was 19.7%, and in Slovenia, the unemployment rate in the same year was only 1.4% [36], p. 394.

However, it must be said that the problem of unemployment (which is not interesting for us due to its phenomenology but in the light of the presence of capitalism) has attracted constant attention since the beginning of the second Yugoslavia, that is, since 1965. The Communist Party was faced with the mentioned problem earlier so it came to the conclusion that it was impossible to avoid unemployment, that is, it concluded that there was an “inevitable”/functional unemployment rate in self-governing socialism as well. Even in the period before 1965, when the growth rate in the social sector (4%) was high, job could not be provided to a great number of people who came from rural to urban areas. After the mentioned reform in the social sector, the employment rate in the period increased at a rate of 0.8%, which was less than the growth rate of the labor force; moreover, if we compare the employment rate with the growth rate of the entire population, then we could see negative rate of -0.1% [27]. The fact causing the concern was that around 50% of unemployed people were young. If we start from the fact that the “inevitable” unemployment rate in capitalism at that time was 4–5%, then the relevant fact is that the same rate in Yugoslavia was around 7% [39], p. 294, or that in 1968, around 47% more people were looking for employment in comparison to the percentage before reform [53], which indicates to the collapse of employment policy. Statistics showed permanent, long-term unemployment, but research, at the same time, indicated to excessive unemployment in companies (contrary to Benjamin Ward’s theory of self-governing firms, which suggested that the said type of firm was a labor-saving one).

The problem of unemployment affected the basic ideological matrices of self-governing socialism. We should not forget that its ideology was based on socialization which is based on work<sup>20</sup>, that is, on the fact that it can be integrated in social community only through the sphere of work. None can enjoy the benefits of socialism without work and a person may become *a*-social without work-biased subjectivity. The fact that aspects of labor market, which determine economic flows, also undermine socialist principle is very important here [55]. The Yugoslav communists

<sup>19</sup> See [51], p. 18, quoted by Przeworski [52].

<sup>20</sup> We use this concept here in terms of [54]. Elson [51] used the concept of socialization in different sense as a market in the public perspective.

clearly projected the necessity of overcoming wage labor. Finally, as the important Polish economist Michal Kalecki [56] reminded us, unemployment is *per se* a political problem, that is, the employment rate always shows political configuration of power. Consequently, higher employment rate is homologous to the power and capacity of the working class. Political economy of Yugoslav unemployment was, in that sense, an adequate expression of general contradictions in terms of “real” self-governing socialism. Not only is unemployment an economic phenomenon but also *condensation* of the existing social relationships. At the same time, it shows the loss of “associational power”<sup>21</sup>, that is, disempowering of the working class which is always associated with the tendencies in the labor market. In addition, recurrent unemployment, loss of self-governing power, as published by the Yugoslav scientific literature, replicates capitalism in such a way that a “degraded worker” who loses the sense of commitment turns to infinite consumption and becomes a slave of “capitalist consumption mentality” [58]. When Yugoslav researchers tried to operationalize “alienation” (as a sense of “meaninglessness,” “anomie,” “social isolation”) then they came to the conclusion that self-governing workers felt like wage earners; therefore, despite the desired projections, the wage labor was present [59].

If we understand self-management as a framework for “zero-sum game” between socialism and capitalism, then perpetuated unemployment can be viewed as a loss of socialist horizon. Due to unemployment, the Yugoslav management allowed workers to go abroad after some hesitation. In 1972, there were about million workers and their dependents in what was then West Germany; it represented 10% of the active population and “about 20 percent of those employed outside agriculture” [35], p. 199. Two-thirds of workers went abroad just after the 1965 reform [27], which shows the effects of the reform. This only completed the *extroverted* mode of existence of self-management socialism, that is, the structure of dependence from world-capitalism. The mentioned dependence was obvious in the situation when there was a stagnation in capitalism in the 70s and the Western European market was less and less absorbing labor from Yugoslavia. We also have to add that with perpetual unemployment the black market flourished which, together with aspects of dependence on the world labor market, inevitably indicated to the fact that there were constitutive dimensions of capitalism in self-governing Yugoslavia.

## 7. Conclusion

Yugoslav self-management promised idiosyncratic coordination between politico-economic actors. Self-government was determined based on the relations between the ruling communist party, capital, and labor. The goal of the self-management was to realize the dominance of labor over capital, but workers did not become “their own capitalists.” Many economists have emphasized that self-management in Yugoslavia was introduced (“imposed”) for noneconomic or ideological reasons. Simultaneously, there was hope that self-forcing mechanisms of self-management would create such a motivational structure of economic entities that would lead to adjustment of ideological and economic patterns. Strategists in the former Yugoslav order as well as many economists believed that the market, in the context of self-management and social property, was a set of neutral mechanisms that can combine ideological teleology and economic rationality. Pro-market arguments presented by Yugoslav liberal economists did not differ from the same arguments made by theorists in capitalism (e.g. Hayek regarding the information superiority of the market.)

<sup>21</sup> On “associational power,” see [57].

There is even a certain analogy with state socialism which aim was to govern the market; some economists thought that there was a “socialist commodity production.” *Liberal economists wished self-management to be embedded in the mechanism of the market as a guarantee of different types of freedom. Communists, however, expected the market to be embedded in self-management.* However, if we take a look at the collapse of self-management in Yugoslavia, as well as the “collective irrationality” of Yugoslav socialism, then it can be said that the forms of markets that existed only prepared the way for capitalism, that is, that self-managements in Yugoslavia were “capitalist roaders.” This will not after all provide general answer to the question already mentioned here as to whether market socialism is possible at all; it will only shed light on the fact that the empirical forms of the market in Yugoslavia did not prevent later capitalism. Self-management was constituted as a front against state socialism in Soviet Union and capitalism, as well (it was the so-called “third road”); *consequently, the failures of self-management marked triumph of capitalism.*

Yugoslav strategists did not think that capitalism was infeasible; on the contrary, they often mentioned “capital-relationship” as an existing horizon that should be overcome, but which returned to the self-governing scene as an internal danger. Capital was, in negative context, often mentioned in various forms, such as “state capital” (that is not “socially owned”), “trade and bank capital,” and sometimes even the phrase “state capitalism” was mentioned. We have to interpret this as forms of the presence of capitalism in self-management; it cannot be otherwise. Self-governing Yugoslavia was always a strong candidate for the “bearer” of the phenomenon of capitalism due to its market orientation, which had strong deregulatory aspects. We could say that capitalism existed in self-governing socialism as a *futur antérieur*.

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