

SOCIALIST STRATEGIES OF REGIONAL DEVELOPMENT AND  
REGIONAL DIVERSITY AND DISPARITY: THE CASE OF YUGOSLAVIA

by

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THESIS SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF ARTS  
in the Department  
of  
Geography

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SIMON FRASER UNIVERSITY

August 1991

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Title of Thesis: Socialist Strategies of Regional Development and  
Regional Diversity and Disparity: The Case of  
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### Title of Thesis/Project/Extended Essay

Socialist Strategies of Regional Development and Regional Diversity and Disparity:

The Case of Yugoslavia

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## ABSTRACT

While regional development literature remains predominantly focussed on the capitalist world, theories of socialist development in particular tend to be abstract economic or political studies which divorce the regions in question from their historical and geographical contexts. A consideration of Yugoslavia, in the tradition of a historical approach to regional development, offers a comprehensive and yet analytical study of the interaction of socialist strategy with existing regional realities.

The following general questions are asked in order to analyze the performance of socialist strategies in Yugoslavia: What was the historical and geographical basis of regional conditions inherited by the Yugoslav Communists in 1945? What was the structure and practice of subsequent socialist strategies of regional development? Finally, what was the process and pattern of interaction between socialist strategies and regional realities in Yugoslavia, and how do the results of this interaction reflect major problems of the Yugoslav model, and socialist approaches in general?

This study includes, firstly, an analysis of general socialist strategies of regional development in theory and practice. Secondly, in order to focus more intensely on the Yugoslav case, there is a consideration of the major differences and disparities among Yugoslav regions which had accumulated prior to 1945. Thirdly, the study outlines the strategy of the Yugoslav Communists as indicated in various documents and literature on politico-economic structure. Lastly, the effect of these strategies on the existing regional pattern is considered, supported with interviews and data gathered in statistical publications.

The examination of the Yugoslav case resulted in two main conclusions. Firstly, the basic rigidity of socialist models limited the flexibility of socialist government to address existing regional differences and disparities. Because of their diverse social and economic characteristics, Yugoslav regions were seldom compatible with standardized regional strategy, which was pursued through the uniformly-applied politico-economic structures of command and market socialist strategies. In addition, Communist preoccupation with economic growth to the neglect of other aspects of development limited the ability to cope effectively with social diversity, as evidenced by ethnic strife in Yugoslavia and other socialist countries.

To my father, for managing, and  
my mother, for humanizing.

## ACKNOWLEDGEMENTS

Firstly, I'd like to thank Dr. J. Brohman for his direction and assistance, Dr. L. Cohen for useful advice, and Dr. R. North for acting as my external examiner. For their help in Yugoslavia, I'd like to thank Tatjana Kuzmanovic, Ida Cerne, Dusan Dinic, Dejan, and the Gogic family. I thank my family in America, especially my father, for his help and advice. Last, but definitely not least, I also thank my Canuck friends, especially Sacha and Kelvin, as well as my friends in America, for having some amount of faith in me.

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## INTRODUCTION

Capitalist and socialist countries have all followed variations of regional development strategies, according to different interpretations of the appropriate path to balanced regional growth (i.e. more equal prosperity among regions, regardless of specific economic activity) and/or other prominent development goals. Regional development strategies can be distinguished by varying emphases on promoting equality among regions, or concentrating efficiency in one or more regions -- and different emphasis on either regional self-sufficiency or specialization (i.e. principally industry in certain regions, agriculture in others). The actual politico-economic structures through which these regional policies should be achieved are also a subject of debate in regional development. The politico-economic system of a country may be characterized by the predominance of either market forces or government-controlled planning, and decision-making may be either centralized in the hands of the central state or decentralized to the grassroots. For example, some believe that the horizontal competition of independent actors on the market gives them initiative to pursue profit -- the key to eventual prosperity of all regions. Others emphasize the need for a central government to control localistic and self-interested behavior of individuals, so that long-term prosperity for all can be attained.

Socialist strategies of regional development can be roughly divided into two frameworks; the Stalinist command strategy, which predominated in the earlier years of most socialist countries; and market socialism, a reformist approach that has more recently been introduced in various forms to most countries which shifted away from the strict command model. The command strategy is characterized by centralization of decision-making and use of an economic plan in preference to the market. Through this politico-economic system, the allocation of resources and guidance of policy by the coordinating state could,

in theory, allow the state to promote balanced regional development. The market socialist strategy is characterized by decentralized decision-making, and a reliance on a balance between the plan and the market. Ideally, market interaction could be regulated by the greater long-term goals of the state, which has the interests of all regions in mind.

Unfortunately for Eastern Europe and the Soviet Union, the command and market socialist strategies do not seem to function so smoothly in practice. There is little question among most observers that socialist strategies failed to promote prosperity, balance, or harmony in Eastern Europe and the Soviet Union, economically, socially, or politically. Each of these countries experienced overall economic inefficiency as well as disparities among peoples and regions. It is important to emphasize the regional pattern which arose under socialist strategies. This regional pattern was characterized by disparity and division. Development in socialist countries over the years was highly polarized (e.g. in terms of sectoral growth, common social indicators associated with quality of living, physical and social infrastructure): the urban/industrial sector flourished under government favour, while the rural/agricultural regions tended to stagnate. This has been contrary to the objective of reducing regional inequalities within traditional socialist development strategies. Ethnic strife was exacerbated under these conditions, which contributed to increased insularity of the ethnic groups and later also the separation of the politico-economic system in such countries as Yugoslavia, the Soviet Union, and Czechoslovakia.

For the particular case of Yugoslavia, a short command period was followed by a long reform period, in which various market and decentralization reforms were pursued. But still Yugoslavia seems to have exhibited a similar regional pattern as that of countries which persisted with the command strategy: an underdeveloped rural/agricultural sector and more-developed urban/industrial sector, and a less-developed heavy industrial sector and more

developed light industrial and service sectors. These sectoral disparities lay behind the major inter-regional disparities between the more-developed northwestern areas and the less-developed southern areas. In order to analyze this pattern, it is necessary to understand firstly, the regional conditions which the Communist government of Yugoslavia inherited, and secondly, how the command and market socialist strategies of this government interacted with existing conditions.

Perhaps the problems for Yugoslavia and socialist countries in general could be traced to a number of commonly cited faults of the politico-economic system: the undemocratic structure of the government, the lack of social liberty, and the folly of attempting to abandon the market. From the standpoint of the need for a regional development study to be comprehensive, all these characteristics of Communism contributed to inefficiency and inequality in Eastern Europe and the Soviet Union. But an examination must be made that touches more deeply on economic, political, and social issues, and outlines the foundations for these issues historically and geographically. An analysis of the performance of socialist strategies in general and in Yugoslavia cannot float at an abstract level where people and factors influencing development are fallaciously considered transcendent of time and of the place in question. Rather, inquiry must be taken to a level at which one can consider the specific time period and region in which events and people are embedded. For example, the regional processes and patterns which arise under standard approaches such as the command and market socialist strategies will be quite different from one country to the next, even though some generalizations can be made. A historical regional development approach offers a comprehensive and yet analytical consideration of many factors (such as ethnic attributes) influencing development as it unfolds in the context of time and space. An examination of the case of Yugoslavia offers a ground upon which to critique the principles of regional development theory and practice, socialist strategies of regional development in

particular, as well as the socialist regional development strategy of the specific place -- Yugoslavia.

The following questions are considered in order to explore the arguments of this thesis:

1. What were the principal regional manifestations of economic, political, socio-cultural, and environmental factors of development in Yugoslavia during the prerevolutionary period? As a result, what were the principal regional conditions of development that the Yugoslav Communist government inherited in 1945?
2. How has Yugoslav regional development been affected by major elements of state policy related to programs of "command economy"? In what ways have these policies affected regional growth and economic differentiation?
3. How has postrevolutionary Yugoslav regional development been affected by major elements of state policies of politico-economic decentralization and the adoption of economic principles associated with market socialism? In what ways have these measures affected regional growth and economic differentiation?

The thesis proceeds to determine how state intervention and the forces of the market under socialist models of development have influenced politico-economic convergence or divergence in Yugoslavia and the regional policies and regional realities (based on regional conditions which existed prior to socialism) formed under each model. The forces of the market (e.g. relative attraction to foreign investment of competitive regions) and the actions of the state in allocation of resources and in other related aspects of economic policy may have slanted economic development in favour of particular regions. On a slightly different

note, it is important to emphasize that in examining the case of Yugoslav regional development, economic and political structure and influences should not be considered the singular and absolute determining factors in regional development. Although less obvious and coherent to the observer, social forces have a role in shaping politico-economic structure, and also influence how people later operate within the existing structure (e.g. the compliance or noncompliance of individual producers to a central plan). For the case of such socially diverse countries as Yugoslavia and some other socialist countries, the interaction of ethnic groups and the changing attributes of each ethnic group are especially important because they influence the performance of different people in the economic and political spheres (e.g. work ethic contributing to inter-regional competitiveness on the market, or the actions of state bureaucrats who tend to favour their own ethnic region).

Many socialist countries were rife with divisions and economic disparities when the Communists assumed power. The regional experience of Yugoslavia is a popular subject for research given its remarkable diversity of ethnic groups and development experience. The importance of this diversity to the Yugoslav experience has become increasingly evident, particularly in light of more recent events which have followed the religious, ethnic, economic, and political fragmentation of the country. The inability of the government to prevent this fragmentation, or to prevent the stark economic disparities between the northern and southern areas is testimony. It may thus be possible to criticize the socialist approach for disregarding the historical and geographical contexts of different regions. Because strategies of regional development are decided upon by the state, I will treat the state as the most coherent collective actor which is able to exert its will in order to promote the favoured form of regional development (or lack thereof). With this in mind, I intend to focus on analyzing how the socialist strategies (translated through government policy) addressed regional difference and disparity.



It appears that socialist strategies may not have been sensitive to the special situations of different regions. Sensitivity to regional difference is important to the case of Yugoslavia itself, to socialist strategies in particular, and regional development in general. It is the argument of this thesis that the actual structural casting and implementation of the particular socialist politico-economic models in the Soviet Union and Eastern Europe, based on certain assumptions and procedures associated with the Communists, may have contributed to the predominance of centrifugal forces within those countries. Communist preoccupation with central themes of traditional Stalinist development strategy as it originated in the Soviet Union (i.e. rapid economic development through industrialization) and its lack of attention for complex inter-relations between people and their environment may have, in part, amounted to the inability of planners to cope adequately with regional variations. This, in turn, may have contributed to the present crisis in socialist development, as many long-neglected factors of the development process (such as social or ethnic factors) now clamour for attention.

In terms of regional development in general, a similar argument of insensitivity to diversity and disparity could be leveled at capitalist strategies (structure and regional policy), which in practice were often coopted regional development strategies of another country (e.g. the U.S.) which had an entirely different geo-historical development. It is possible that the very inflexible, standardized nature of the models and their lack of regard for diversity may have contributed to centrifugal forces in these countries.

A primary purpose of this study is the filling of a literature that I feel is lacking. There are three categories of literature to which I intend to contribute in this thesis: regional development, socialist strategies of development, and Yugoslavia. Most studies which are

explicitly focused on regional development have concentrated on the capitalist world. Very few analytical studies of Communist regional development have been made. Furthermore, much on the literature on socialist development tends to divorce countries from their historical and geographical context. For example, many economic studies provide only a surface discussion of abstract economic relations (e.g. supply and demand and prices) without considering the many other social, economic, and political forces that may influence economics. A purpose of this thesis is to place command and market socialist structures and strategies in terms of regional development. This requires an examination of structure --the roles of the plan and market, and decentralization or centralization, and self-sufficient or specialized regional policy -- and how regional patterns were influenced by these structures. A similar structure of inquiry (market/plan, centralization/decentralization, self-sufficiency/specialization) will be given to the case of Yugoslavia. While there have been a few regional development studies of Yugoslavia (e.g. Hamilton 1968), the literature needs to be updated. Much of the current literature on Yugoslavia descriptively note that there is regional diversity in the country, without analyzing the processes behind the pattern.

The second purpose of this thesis is targeted towards the practice of Yugoslavia's regional development, socialist development, and regional development in general. On all three counts I intend to demonstrate the difficulties that may arise through failing to place development in the context of time and geography, and ignoring diversity, and social factors. Yugoslavia has experienced many of the problems associated with market socialist alternatives of socialist development. The study of market socialism may thus be important for future analyses of socialist methods of regional development. The case of Yugoslavia exemplifies a blend of regional development strategies which may prove to be useful to other countries (especially those considering the adoption of market principles in a socialist

economy: the Soviet Union and other Eastern European countries) in formulating their economic and regional policies, as well as shaping general socialist development strategy. Yugoslavia is extremely regionally complex; the impact of socialist strategy on regional diversity (and vice-versa) in Yugoslavia could be useful as an example for future regional development strategies of complex countries. As many capitalist countries have become increasingly social democratic, the lessons provided by socialism and by Yugoslavia may prove beneficial in the guidance of the field of regional development in general, so that an appropriate path to development can be followed, in line with the needs and capabilities of different regions during different time periods.

The thesis will proceed in four chapters. The initial literature review chapter considers basic socialist strategies -- command and market socialist -- in theory and practice in the socialist countries of Eastern Europe and the Soviet Union. The discussion of pre-socialist Yugoslav development in the second chapter sets the stage for an examination of the regional effects of applied socialist development strategy. In order for a comprehensive study to address the factors involved in the process of regional growth under socialism, it is necessary to examine the underlying historical and geographic foundations of the persistent differences among Yugoslav regions. The third chapter will outline the main aspects of the command economy, and will remain focused on the structures of the command approach and the result of regional realities clashing with the command strategy. I will be mainly concerned with economic and political issues, and I will leave the social (ethnic) issues to the fourth chapter. Chapter 4 includes an analysis of the socialist strategy of regional development during the market socialist period (built on the previous historical periods) and how this has interacted with regionally diverse factors, especially in the social realm, in building the resultant pattern and process of regional development.

## CHAPTER 1. LITERATURE REVIEW: SOCIALIST STRATEGIES OF REGIONAL DEVELOPMENT

Socialist strategies for regional development may be at least partially differentiated by the degree of adoption of some combination of central governmental directives (in the form of a plan) or reliance on market forces. Additional variations are present between centralized and decentralized structures of decision-making (Milenkovitch 1971; Brus 1973). Development strategies operating within these systems have varied in emphasis between the specialized development of a particular area (in which, similar to capitalist strategies, revenue is eventually redistributed to the lagging regions); or more egalitarian development of largely self-sufficient areas (Devetakovic 1989).

The command economy initially introduced by the Communist countries represents a centralized model which incorporates the use of a central plan (replacing the role of the market in allocation of supply of some goods and services according to demand),<sup>1</sup> which allocates investment and goods according to planning criteria determined by the central government (Dunmore 1980; Hohmann 1975; Johnson 1989). Theoretically, regionally balanced development will ensue in the most efficient manner; various sectors and regions of the country are coordinated by a central government which should be equipped with a coherent, well-coordinated planning apparatus and accurate knowledge of the perceived needs of society.

In contrast to the command strategy, the market socialist model incorporates use of the market mechanism (controlled by a macro-economic plan) to perform as the information

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<sup>1</sup> The market would remain dominant in production and circulation of some goods and services (i.e. goods from private agricultural small-scale plots, and goods and services which were a part of the informal sector, or black market).

carrier in the distribution of goods according to demand. The majority of small-scale decisions are left to be determined by market criteria, while the central government orients the direction of development at the macro-economic level (e.g. through price regulation, financial policies, and taxation, as well as various other laws and regulations) (Brus 1973; Milenkovitch 1971). This model has recently been adopted to varying degrees by a number of Eastern European countries (e.g. Hungary, Yugoslavia, Czechoslovakia). Advocates of market socialism believed that this decentralized system would give regions and individuals the freedom to develop unimpeded by a distant and often misinformed central government. Market socialists maintained that the presence of a state-regulated macro-economic framework would ensure that more balanced development would take place relative to fully capitalist systems.

The orientations of capitalist strategies may be compared in some ways to socialist strategies. Traditional neoclassical strategies oriented towards growth maximization support centralized development concentrated in one particular specialized region from which profits are redistributed through state interventions to the lagging sectors and areas. Under this model, relatively autonomous units operate in a competitive market. In contrast, more social democratic or "reformist" approaches<sup>2</sup> tend to emphasize decentralization of a politico-economic system to the local level, and more egalitarian development of all sectors and regions of a country. While the command strategy of socialism requires strong state

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<sup>2</sup> Such reformist theories maintain that divergence in a market system continues without the eventual intervention of a central authority, due to the tendency of "backwash" effects (e.g. deskilling of a region, concentration of investment in a core region, leaving the peripheral region lagging) to overcome spread effects. Thus, convergence of development levels between the regions cannot occur without concerted intervention by the state or some other outside authority. This may also be accompanied by decentralization of decision-making to the horizontal level in order to foster local participation and a more equitable distribution of investment, goods, and services. The role of the government, according to this model, lies in the promotion of equity through redistribution of revenue and investment, and the formulation of policy oriented toward the development of the lagging sector. The lagging sectors and areas would benefit from concentration on more broadly-based and balanced development, with more effective use of resources in the peripheral areas, and the establishment of better linkages between the core and periphery.

intervention (as in the more social democratic models of capitalist development) and market socialism supports decentralization of decision-making to autonomous units (as in more orthodox neoclassical development), neither of these socialist strategies has its own formal regional policy per se. Historically, patterns of regional development under the socialist strategies have not seemed to differ greatly from regional patterns under capitalist strategies, despite socialist claims.

Governments of command systems have historically emphasized balanced development rhetorically while simultaneously following a path of specialization in terms of concrete regional policies. While it may be inaccurate to say that all market socialist models adopt a policy of specialized development, this pattern of regional development has most often been the result in practice. Market socialist governments have similarly tended to stimulate specialized development while claiming that growth will eventually spread to other regions. These types of regional policies determined by central governments played a large role in shaping subsequent regional development in Eastern Europe and the Soviet Union (Sirc 1969: 9). In these countries, certain areas and sectors received the overwhelming majority of investment while other regions and sectors remained relatively underfinanced and underdeveloped. The market also continued to exist to some extent in these command systems and may also have contributed to some regional disparities through the attraction of capital to more competitive and accessible areas.

The Yugoslav example of development under the command system is typical of the post-war experience of most other socialist countries in Eastern Europe until quite recently. Yugoslavia itself has passed through several stages of regional development that have been heavily influenced by state development policies. Before 1945 and the advent of Communist administration of the country, Yugoslavia developed in large part along the

lines of laissez-faire and later neo-classical development,<sup>3</sup> with accompanying variations in regional and sectoral development (Lampe and Jackson 1982). This situation may have been further affected by the regional policies of Yugoslavia under Marshal Tito. After a relatively short period of command strategy immediately following the Second World War, Yugoslavia attempted different variants of market socialism for a period of over forty years. There is evidence that long-term tendencies toward balanced development did not gain strength in this period, contrary to the prognostications of the market socialists. In many ways regional and sectoral disparities increased under these systems (Plestina 1987; Flaherty 1988).

The relative degree of decision-making centralization, as well as the emphasis given to the plan or market forces under socialist models have influenced and been influenced by regional patterns of concentration or deconcentration of development over space and time, and should be examined through an analysis of regional development. This literature review places the Yugoslav example within the context of the broad frameworks of socialist strategies for regional development.

The following sections of this chapter will elaborate on the policy orientations of the

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<sup>3</sup> Neoclassical theory commonly advocates the development of a dynamic, industrial sector through the accumulation forces of the free market. Thus, surplus labour may be employed from the lagging, agricultural sector in order to develop a capital surplus which can be reinvested in the lagging sector. The productive sector is concentrated in the core, from which decision-making is centralized. In order for development to occur, it is necessary to remove any intersectoral barriers to interaction between the "modern" and "traditional" sectors, and between industry and agriculture. Inevitably, this causes a period of divergence of development between the two sectors, as the static sector requires increased productive investment and savings. This will be followed in turn by a process of diffusion from the dynamic to static sector, and the eventual convergence of development levels of the regions. This is accomplished as the benefits of increased development of a core area "trickles down" to the periphery through diffusion of technology, expertise, and capital (provided that trade on the inter-regional market is unimpeded by non-market factors). Thus, spread effects from the core to the periphery are able to overcome the tendency for divergence, as the traditional sector gains in efficiency to the level of the modern sector (extensive period of growth), and a more broadly-based development of many sectors and regions may ensue (intensive growth) (See Hirschman 1986).

command and market socialist strategies of regional development, and the historical realities which have arisen in the socialist countries operating within these frameworks. Of particular concern are general patterns of regional and sectoral concentration/deconcentration, and how these may compare to the Yugoslavian experience.

It is important to note that these theoretical models are primarily economic in focus. Social factors (e.g. ethnicity, gender) have generally been peripheral to the central themes of economic development. This neglect of such important social factors involved in the development process may have, in part, aggravated problems that socialist governments had coping with regional diversity. This chapter will follow the economic emphasis of the literature while leaving the particularities of complexes of social relations to treatment in the following chapters.

### **1.1 The Command Model**

The Soviet Union and all Eastern European socialist countries, following the advent of Communism, adopted command economies. Within this socialist economic strategy, a centralized decision-making apparatus vertically implements the directives of the plan linearly to the lower levels of the hierarchy. This is accomplished through a system of ministries, following the macro-economic guidelines of the state (in concert with the Party), which creates and enforces the plan at the regional, local, and enterprise levels (Wilczynski 1970). Enterprise in this system is owned and managed by the state, and most private property becomes public property directed by the central government. Prices and wages are primarily controlled through directives from the central government permitting (in theory) the state to sustain high levels of investment and allocate goods and labour to designated



regions and sectors.

Government plans are considered a substitute for the market, compelling individuals and social groups, enterprises, and regions to comply with the plan in order to fulfill yearly demanded production quotas. Allocation is then directed vertically from the government central administration downwards to the lower levels of administration according to areas of perceived need. The center attempts to direct the overall long-term goals of the various units through the regulation of capital equipment and investment funds provided in the form of grants and subsidies. Moreover, patterns of excessive regional or sectoral accumulation and concentration of capital should be avoided under the guidance of the state which, because it operates with a Marxist ideological orientation, should theoretically be centrally concerned with fostering balanced development and the reduction of disparities at various levels and scales.

The basis for the structure of the command system lies in traditional Marxist thought and should be examined in this light. Traditionally, Marxist thought has emphasized the need for the reduction of inequalities in standards of living between and among regions: town and country should have a decreasing differential in development levels; inter-regional inequalities should be reduced through measures promoting a more even distribution of resources and labour; and the resources of an area should be utilized in such a way that they will most efficiently better the living conditions of the general population (Smith 1989; Wellisz 1964). Equity of wage-levels and standards of living are emphasized, in the interest of achieving social justice and politico-cultural equality (Koropecykj 1973).

Emphasis is placed on the gradual elimination of regional inequalities based on socio-economic factors, with the eventual development of an economy that functions within the

constraints of a resource base limited by existing environmental and ecological conditions. On the one hand, previous spatial inequities would be inherited which might often be compounded by ongoing physical differences among regions. On the other hand, theoretically a socialist country would not be burdened by socio-economic factors associated with capitalism. For example, the means of production should not be in the hands of a small self-interested elite, as is the case in capitalist societies (according to Marxist theory).<sup>4</sup> Official ideology requires that socialist countries strive to achieve equilibrium in the development levels of various regions. Accordingly, a plan composed by the central government in the general interest is thought to be vital, as it acts as a "rational" distributor of production and circulation benefits in the interests of balanced growth.

### **1.1.1 Efficiency and Equality of the Plan**

The difference between a command economy and a market economy has been portrayed by protagonists of the former as a dichotomy between, on the one hand, a "conscious" mode of production with the central plan regulating the direction of production "rationally" and on the other hand, "unconscious" chaotic modes of market regulation in which economic processes and results are not controlled by labourers and other direct producers, resulting in rising inequities (Cockshott and Cottrell 1989). Polarization is portrayed as an inherent characteristic of systems dominated by a free market. Prior to World War Two, under a market economy, Eastern Europe experienced increasing disparities between the prospering

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<sup>4</sup> Concentration of power in a privileged minority may not only be an attribute of capitalist systems. This is clearly demonstrated by the examples provided by Eastern Europe and the Soviet Union, in which decision-making power and economic benefits have been polarized toward the bureaucratic elite. This will be discussed at greater length later in this chapter.

capitalist urban sector and the lagging rural non-capitalist sector (Kozma 1982: 17).

According to Turnock (1989: 196):

“[The] . . . operation of free-market forces creates a situation in which people who have little to offer by way of capital and skills cannot bargain for high[er] wages, while regions which are remote from the main centres of commerce, with few raw materials and skilled workers, will have difficulty in attracting investment in manufacturing. [According to advocates of the planned economic system], [i]f the market is replaced by the plan . . . greater equality can be achieved.”

Socialism was designed to avoid the problems of the market: “socialism should generate the natural tendency, uninhibited by private profit considerations, to use to the full the existing potential of economic development” (Brus 1989: 6).

The primary advantage of the command system is the ability of the center to choose not only certain regions, but also certain sectors for increased development by effective allocation of funds, raw materials, and labour. (Brus 1973; Chunze 1987). “People can be positively stimulated by such allocations . . . and they can also be constrained by shortages, administrative controls, and in the last resort, by coercion . . . provided that the infrastructure is up to the national standard . . . [I]ndividual regions can be assisted on the basis of an appropriate share of the total investment, whatever the sectoral [and regional] priorities” (Turnock 1989: 78).

The role of the plan was to achieve a more egalitarian distribution of benefits, and, through this, long-term efficiency which would be relatively unconstrained by unfavorable conditions (e.g. lack of resources) in some areas or social sectors. Regions, workers, and sectors disadvantaged by circumstance are therefore not trapped in vicious downward spirals of exploitation and poverty, as is the image of their plight under capitalism. The plan would eventually redistribute resources equally, allocating investment and labour according to the needs of various areas and demanding only suitable products from these

areas in return. Regions and groups of people would benefit equally from more egalitarian access to a higher quality physical and social infrastructure, as well as more balanced income levels from sector to sector and region to region. This required a substantial focus on equalizing historical and regional conditions, especially through devising compensation for those groups or sectors in lagging regions with few if any comparative advantages vis-a-vis their counterparts in more prosperous regions.

Such equalization measures include the elimination of differentials through effective manipulation (i.e. mobilization, constraint, or stimulation) of investment and labour factors. Planners could allocate physical resources, capital, and labour to lagging areas by decree, or through stimulating a region's investment potential by providing better physical infrastructure or by promises of subsidization for enterprises to locate there. Competitive patterns in a planned economy theoretically do not exist. Therefore, the urge to achieve economies of scale through individual enterprise initiative does not exist. Government subsidies and plan demands should dictate, in this scenario, the movement of fixed capital or capital funding towards peripheral areas. This would also be effective on a sectoral level, as certain industries or sectors normally unprofitable in a capitalist system may be injected with investments as dictated by the state. Wages can also be controlled according to degree of difficulty or remoteness from core settlement areas. The center is also able to constrain investment in core areas, as well as limit migration to primary cities. This would act essentially to relieve the strains of rapid urbanization such as inadequate housing in the core urban areas, as well as deskilling and unemployment in the peripheral rural areas, provided that this is the overall aim of state policy in practice.

The ability of the plan to address spatial differences effectively was contingent in large part on the dominant spatial policy. In practice, Eastern Europe under the so-called "conscious"

forces of the plan was unable to attain a situation of relatively equal development and benefits for all members of society. While policies of equality were given rhetorical support, investment in the majority of cases was quite concentrated, resulting in unequal development levels, including those among regions and sectors, and between rural and urban areas. This issue will be addressed in more detail later in this chapter.

The plan was considered to be the strongest force in the influence of patterns of development. However, the market has also had some significant roles (especially in later years in which the informal economy was flourishing). While the market was considered important in terms of coordination of supply and demand, the overwhelming forces of capital accumulation associated with it may have contributed to the widening of disparities. It is necessary, therefore, to examine more closely the role of the market in regional development within a command system.

### **1.1.2 Limited Role of the Disequilibrating Market**

In the command system, the center has control over the "commanding heights" (e.g. pricing) of the economy, in the form of various ministries and agencies and branches of enforcement which operate according to the directives of the state and the plan (the framework of which is built by Party members of the state apparatus). Enterprise and regional leaders are expected to operate within the framework of the plan, which acts to limit inequitable patterns that may result from market competition. The market does exist in a command economy at certain lower levels, however. While the plan is considered necessary at higher levels of decision-making in order to limit market tendencies to aggravate inequitable conditions among individuals, regions, sectors, and rural and urban

areas, the planning capabilities of the center are not sufficient to control all aspects of life and exchange directly (Wilczynski 1970).

In practice, market exchanges at the level of the individual or enterprise have been regulated by law and by pricing mechanisms set by the central government. Internally, surpluses beyond the quotas demanded by the Central authorities may be disposed of through the market. The market also exists in the exchange of consumer goods, although some goods (particularly basic consumption goods and staple foods) and services (e.g. public education, health care) are supplied at greatly reduced or no cost to the general population, and some higher-status people have enjoyed direct allocation of consumer goods (Johnson 1989; Winieki 1988).

In terms of the market, land in rural areas of most socialist countries was collectivized, while market relations were limited to the sale of surplus produced beyond the demands of the government yearly quota (Smith 1983). Growers therefore tended to exaggerate costs in order to receive aid from the government or keep quota demands low so that additional surplus could be sold outside of state channels for personal profit. In the agricultural sector, rural and urban residents often grew their own private plots for sale of goods on the black market.

The very cumulative nature of the market, within a strictly linear plan system, may have influenced polarization tendencies in development. Those restricted under the plan often took any reasonable opportunity to make a personal profit without thought for the macro-economic, long-term goals of the planners, while relying on the cushion of government aid. Markets in Western currencies and goods flourished (Smith 1983). Those actively involved in this second economy tended to migrate to the core in order to gain access to the

larger, more concentrated market of the major cities, which also tended to benefit those people employed in the urban areas.<sup>5</sup>

Property was not owned or managed by labourers but rather, owned by the state. Income levels were also determined by the state. Thus, it was not in the interests of the enterprises to repair and maintain plant equipment or facilities; it was not profitable for the individual or enterprise to put extra effort into the care of something which did not have a direct effect on their incomes. Moreover, as the likelihood of a worker being fired was low, there was little motivation to work up to one's potential for the state and more motivation to work harder privately on one's spare time (Kornai 1959; Sik 1967; Smith 1983).

Market consumer exchange has increased with the growth of the second economy which has provided badly needed services that the central planning system was unable to provide. Nonetheless, it has in some cases introduced additional problems to socialist countries. "Economically, it [was] disturbing that workers who retain their employment in the first economy because of the security and welfare benefits it provides nevertheless reserve[d] their best efforts for the second economy where success may depend in part on pilfering and other irregularities at their main place of work" (Turnock 1989: 168).

The second economy and the marketing of surplus goods have also tended to concentrate in those areas in which the central government has already focussed investment: the urban and industrial core (Smith 1983). The claim can be made, however, that this is not necessarily an inherent fault in the centralized nature of the command system but rather in the current

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<sup>5</sup> Urban dwellers tended to have higher income levels than those in rural areas (as many were employed in administration or industry which received the lion's share of centralized allocations of investment and resources). The urban population also had better access to black market goods as they had less distance to travel to buy them.

inability of the planning apparatuses of the socialist countries to regulate and control market relations. Nevertheless, it has been evident that total control of market relations has resulted in extreme inefficiencies, resulting from inadequate profit or benefit incentives for workers or enterprises. Moreover, the benefits of this kind of system have tended to concentrate among those classes holding control of the means of production; the state bureaucracy. This situation contradicts claims made by many national leaders of these countries that social inequalities have been eliminated under the command system.

The operation of market forces may have further exacerbated regional and sectoral differences existing in countries adopting a command strategy. However, the actual structure of development strategy was built more or less according to central government directives operating within the constraints of the existing historical and geographical conditions. Thus, many patterns of spatial development among regions and sectors have been heavily influenced by the concentration of decision-making power (Winieki 1988). A further examination of the structure and functioning of the decision-making apparatus in the command system is thus required in order to illuminate this relationship.

### **1.1.3 Efficiency and Equality of Centralization**

Decisionmaking at the larger scale in the command model is strictly hierarchical with direct orders vertically implemented from the center; "horizontal links themselves are of a purely technical, implementary character." (Brus 1973: 8). Market forces do not operate in large-scale transactions between enterprises. Initially in the command systems of Eastern Europe and the Soviet Union, the national plan was formulated through a process of bargaining and compromise that attempted to make the long-range macro-economic goals of the upper



echelons of the state compatible with more short-range desires of the enterprises. The plan was then submitted to the economic ministries, which in turn assigned directives to the enterprises directly or through their respective branch directorates (Johnson 1989; Wilczynski 1970). The enterprises were then required to follow these directives, and were eventually supplemented by the administrative allocation of various resources, including raw materials, products for the building of local physical infrastructure, and direct capital investment.

The centralized system is characterized, then, by a vertical chain of command in which information is gathered from the local, regional and sectoral levels. A plan is formulated by a central planning apparatus, guided by the directives of the state based on the perceived overall goals of society. The plan is subsequently disseminated through ministries to the enterprises and regional and municipal heads to be implemented and enforced:

"The center could collect the relevant data and determine, in relation to some sort of ends, the efficient allocation of resources. Simultaneously, it could generate a set of 'proper' prices that, when transmitted to the individual production units, would induce them to make that allocation, on the basis of independent decisions, envisioned by the planners. In this instant the decisions are, in a sense, decentralized. On the other hand, the center [should] possess . . . all the information necessary to allocate resources directly, so the collection of information and the social vantage point employed are really central rather than local" (Milenkovitch 1971: 3).

In the command economy not all levels of decision-making are directed by the center. On the one hand, individual decisions, such as career and purchasing choices, are left unregulated by the plan (although this is not always true: e.g. administrative assignments, military conscriptions). On the other hand, the central government may control the allocation of labourers to various regions and sectors through measures such as the adjustment of wages and job benefits (Johnson 1989; Smith 1983). The central government

is also unable to regulate current decisions made on a daily basis by enterprises, as this takes far more informational capacity than is normally available (Brus 1973). Decisions of a technical or short-term nature are made by enterprises and local/regional leaders; nonetheless, they remain constrained by the imposed framework of the plan. In addition, in the command model there is not only top-down, strictly linear control, but enterprises are also subject to the control of various socio-political organizations (specialized commissions, local/regional councils and officials, and state security) guided by different broad state policy priorities (Johnson 1989).

Historically, enterprise and regional autonomy were very limited and these units had little real decision-making power. "The power of the individual or the group to influence location[al] decisions decreases from the top to the bottom of the structure. That decrease may be positively correlated with the scale or importance of spatial and functional responsibilities and inversely correlated with the number of people or groups of people on each level of the spatial management hierarchy . . . who seek to influence decisions" (Hamilton 1973: 241). The bureaucratic minority, having the most responsibility over the greatest amount of territory, dominated the remainder of the local populace. Historically, the allocation of goods often was determined by political leverage rather than local or sectoral needs. In the pursuit of extensive industrialization, the central decision-making apparatus most often catered to the industrial sector, in the interests of "production." This disadvantaged regions which had a greater comparative advantage in, for example, the agricultural or service sectors. The regional and sectoral emphasis of the Party, which was normally formulated in national and regional plans, has most often resulted in the concentration of skilled and mobile labour in urban and industrialized areas in more-developed regions. Disproportional wage and job benefits have accompanied the urban/industrial biases of the central governments.

Localistic decision-making skewed toward state-prioritized sectors followed. One of the most effective ways for an enterprise or region to influence decision-making was through the methods by which information would be provided to the center. Regional or enterprise heads often exaggerated infrastructural needs or spending requirements. The center, ministries, provinces and districts, cities, or enterprises often sought to influence decisions which were favourable to their spheres of activity. (Hamilton 1973; Winieki 1988) This often resulted in a lack of coordination between the various units, in addition to an unbalanced distribution of resources to the interested parties. "The systemic information bias [was] in the direction of understating capability and overstating needs. This . . . [led] . . . to and exacerbate[d] the simultaneous existence of substantial hoards of materials in some places and corresponding shortages in others" (Petr 1990: 5). Allocations of certain goods may not have been made according to the actual demand of an area or sector. Shortages often resulted in some areas or sectors that did not have political leverage, resulting in their inability to supply other areas with necessary products. The enterprises and regions commonly took advantage of the inadequate information available to central planners in order to minimize plan targets and maximize planned allocations of resources.

Patterns of concentrated development were aggravated by regional policy, which was formed by a central bureaucratic minority. Historically, one of the greatest problems of the command system has been the exploitation of the majority by the bureaucracy. Not only was the working of the economy uncontrolled by any regulating market mechanism (which could theoretically act to balance supply and demand), but the power of a minority was not checked by effective democratic mechanisms.<sup>6</sup> In regional terms, this has been extremely

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<sup>6</sup> "Democratic mechanism" refers to equal participation and decision-making ability among individuals of different groups, in order to ensure a balanced distribution of power. This normative ideal may not, of course, have existed at any point in history, but the lack of it remains a heavy criticism of the command

detrimental to balanced development. Ideally, "it is [the] attack on the concentration of power, and the diffusion and equalization of power among all members of society, which is the essence of [real] socialism" (Prosser 1988: 43). By contrast, the Communist Party has had full monopolization of power and resources and has maintained its control by administration of mandatory plans. Administration has disdained transactions on a horizontal level, seeing it as competition and therefore threatening to true socialistic relationships of equal exchange and collective cooperation (Schuller 1989). This was particularly damaging to economic growth in Eastern Europe and the Soviet Union, as central and regional state apparatuses tended to remain distant from the needs and interests of large groups of people, particularly those in peripheral areas. Quantitative production was the emphasis of the Communists, rather than the prosperity that could be gained through such sectors as international trade and services. Moreover, production was directed to meet political ends, rather than economic or social (Smith 1983; Winiecki 1988). For example, conflicts erupted as a result of prolonged wrangling and power struggles among various regions over their rare goods, all of which impeded the growth process (Smith 1983). The peasantry tended to receive the brunt of this imbalance as it has traditionally been considered less central to socialist development within this model.

Centralization of decision-making power has been regarded as an inherent function of a system in which there is a centrally implemented plan. The term "centralization" itself implies an act or state of being that is concentrated in a particular node -- the central government. In the past, communication and transportation exigencies in the process of plan formulation and decision-making have necessitated the concentration of planners and planning organs in a spatially central node -- an urban area. This contributed to the

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system, as well as of other systems.

disproportional investment for provision of physical infrastructure in that node, as well as a skewing of income distribution towards the bureaucracy that was spatially concentrated there. Moreover, this acted against the supposedly equilibrating forces of the plan. Not only is there a concentration intra-regionally in major cities, but also inter-regionally according to the largest concentrations of planning organs. As Turnock (1989: 199) states: "[there is a] proven tendency for regional Party leaders to encourage the growth of industrial complexes in the administrative centers, which thereby grow at a disproportionate rate. Where there are essential location criteria which the regional center cannot satisfy, the search for a suitable site is based on the main center and a complex of industries may then develop in the core of the region." Furthermore, concentrations of investment in quaternary, administrative sectors resulted in additional disparities in income levels.

In order to examine regional and sectoral development under the command system with a centralized decision-making structure, one should make further distinctions among the formal regional policies followed over time by various socialist countries. Each country pursued regional development somewhat differently, while acknowledging two extremes of regional development policy: self-sufficiency and specialization.

#### **1.1.4 Equality of Self-sufficiency**

Although regional policies may have ultimately been shaped by the political, socio-cultural and economic structures characteristic of actually existing command systems, the theoretical basis for regional policies can also, at least in part, be traced to traditional Marxist thought. "Lenin emphasized the value of concentrating production in large integrated enterprises, or 'combines', and especially near the sources of raw materials and

energy. Engels stressed the importance of achieving an even or spatially more equalized distribution of industry and of eradicating differences between town and country” (Hamilton 1973: 239). From these divergent theoretical stances evolved the debate in socialism between, on the one hand, strategies of balanced development of all regions and sectors and, on the other hand, regional specialization. Accordingly, there may be two ways of handling different levels of economic growth: accelerating the development of the less-developed regions in the pursuit of broadly-based growth,<sup>7</sup> or redistributing revenue to areas in which specialized development is not concentrated (in the specialization strategy) (Devetakovic 1989). These two methods were debated by advocates of the two different approaches. Quite often socialist countries attempted to utilize a combination of specialized development and redistribution, on the one hand, and more comprehensive and broadly based development, on the other (by directing a greater portion of investment in the less-developed areas in order to facilitate rapid growth, albeit industrial growth).

Self-sufficient development was to focus on the long-term maximization of returns on capital investment, which was to be accomplished through a number of ways. Firstly, the reduction of administrative and transport costs (through widespread development of physical infrastructure) was to facilitate the linking of various regions and therefore result in more effective coordination of activities and exchanges. Secondly, self-sufficient development was to provide the minimum conditions for each individual to reach their potential unimpeded by a region or group’s lower development level (e.g. equal quality and availability of education). Finally, self-sufficient development was seen as more effective in the strengthening of defensive capabilities and ultimately protection of the system itself

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<sup>7</sup> This may be accomplished in part by the concentration of investment in a peripheral area or sector. Other methods (e.g. financial benefits, favourable terms of trade) may also be used to stimulate the potential or ability of the area or sector in order to increase its development level relative to other regions or sectors.

(Dunmore 1980). While deconcentration may mean slower productivity growth and slower output growth in the short term, surplus available to the state in the long run for net investment may be larger, as well as long-term benefits associated with a stable and balanced economic system (Post and Wright 1989). Relatively less accessible areas would need to be equipped with services and small industries necessary to supply the local population and working force. Peripheral regions would thus be minimally dependent on the core regions.

There are, however, significant extra costs incurred with self-sufficient development. These include the added expense of attracting skilled workers to the backward areas, or transforming the local population into a reliable industrial workforce (and providing them with adequate housing and physical infrastructure), in addition to transporting machinery and construction materials from the developed to underdeveloped regions (e.g. from the Northwest to the Southeast in the Soviet Union). Moreover, "the economic opportunity cost of excessive self-sufficiency involves loss of benefits from international specialization and exchange based on the principle of comparative advantage" (Zinam 1973: 198). Areas most suited to the production of a certain good (or performance of a certain service) must diversify in order to become self-sufficient, and produce goods for which they do not have a relative advantage. This raises the costs of production and limits the production of goods that can be marketed internationally for profit. In addition, it may be difficult for planners to coordinate between various self-sufficient regions as sites and resources range in their quality, diversity, and distribution.

Countries working within the strategy of self-sufficient development have met with limited success in the regional and sectoral results of development, due in part to the inability of the state to adopt a balanced approach. More often than not, specialization was the final result

(Lavigne 1974). For example, Romania achieved some amount of success through the development of diverse industries from region to region. This growth, however, tended to concentrate in the urban/industrial sector, leaving outlying peripheral areas lagging behind (Tsantis and Pepper 1979). In addition, certain problems arising from social or political conditions may cancel out the advantages associated with self-sufficient development: problems associated with localistic uncoordinated behavior of regions, concentration of power in the hands of regional elites, and inter- and intra-regional variations in population growth. All of the former may cancel out attempts to develop comparative advantages in the backward regions.<sup>8</sup>

Contrary to the traditional theoretical emphasis of socialism on balanced growth, the practical development strategies of most socialist countries followed that of specialized development, in order to achieve rapid industrialization through utilization of comparative advantages (in production) already in existence. While this strategy also tended to include compensation for the lacking regions, planners tended to concentrate on those regions already well-endowed and well-served for development, while those considered low in importance were given relatively little attention.

### **1.1.5 Efficiency of Specialization**

The logic of strategies of specialized development was based, in large part, on the perceived

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<sup>8</sup> This may be demonstrated by the Yugoslav example: investment redistributed to less developed areas was not always used productively according to national needs, but instead was often diverted into social or cultural activities and prestige symbols of the dominant regional ethnic group or elite. Problems associated with high relative population growth in backward areas also tended to widen existing disparities. There was under- and unemployment of the expanding unskilled labor force as well as difficulties in providing an adequate social and physical infrastructure for the growing population. This problem is true of the southeastern regions of the Soviet Union among the Muslim population, as well as among the Albanian minority of Yugoslavia.



efficiencies that are associated with it "on the basis of various existing natural and man-made conditions in certain regions, [in which] . . . development is channeled mainly to the branch which can use its potential to its maximum -- to activate all factors of production which need to ensure the fastest possible overall development" (Devetakovic 1989: 122). In the context of the command system, this would be accomplished with the establishment of a main industry, upon which many follow-up industries would rely, that would benefit by attainment of economies of scale through specialization and a "rational" division of labour (Lavigne 1974; Kozma 1982).

According to this theory, promotion of balanced regional growth requires immense investment in infrastructure. Thus, it is more efficient and rational to concentrate some branches of industry and agriculture in certain places. This is based on a conception of comparative advantage similar to that in neoclassical regional models, in which the development of certain sectors is pursued in the areas that have relative advantages for their production. The most efficient spatial allocation of resources and activities results; locally produced goods may be traded for other goods produced in another specialized area, maximizing the efficiency of overall production. Furthermore, when economic development is achieved by the concentration of population in specific regions and sectors, coupled with effective coordination, development should spread from these regions of concentration to surrounding regions, eliminating the need to develop an extensive infrastructure spontaneously (Devetakovic 1989).<sup>9</sup> This spread would be accomplished by (ideally) accurate knowledge of regional capabilities and needs, upon which the government

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<sup>9</sup> The diffusion of benefits to lacking areas and sectors in a specialized system, however, does depend to a certain degree on provision of adequate transportation networks leading to these less-developed areas. This approach is very similar in many ways to traditional neoclassical strategies of specialized growth (dynamic, growth of modern sectors, and redistribution for the development of lagging sectors). However, in socialist strategies, specialized development locations and allocations are based on planning directives of the state, and not on the forces of market competition.

can act in distributing resources and investment. The spread of development (through state capital investment and revenue redistribution) was to be regulated directly by the state.

According to the regional strategy of the centralized command model and traditional concepts of economic "rationality", regions should specialize in those goods that they produce most cheaply and efficiently. Production was to be distributed in order to maximize the use of the diverse factor endowments of regions (e.g. infrastructure, natural resources, and labour) (Hamilton 1973). Choices of location were also to be consistent with the defensive needs of a country. This influenced the locational policy initiated by the Soviet Union and, to a lesser extent, the Eastern European countries. However, the challenge to compete with capitalist countries, as well as that of promoting equity, required high growth rates in a short period of time. Moreover, national defense required, according to these planners, extensive industrial development which thus required concentration and specialization in the core in order to utilize economies of scale and existing comparative advantages most efficiently. Therefore, the Communists tended to emphasize locational efficiency and compromised on equity in order to maximize output. In part as a result of this, significant variations among sectors and regions were exacerbated, while steady, balanced growth for all regions was not achieved.

Most socialist countries adopting a command system (and later more reformed versions of the command system) proceeded to emphasize the development of urban areas (with the notable exceptions of such countries as China and Cambodia) producing a widening gap between these and many peripheral rural areas. This left neglected regions which lacked any comparative advantages for development of industrial specialization. Investment and allocations were concentrated in urban areas in which there was already a comparative advantage in factors such as skilled labour or fixed capital. Skilled workers and capital in

the peripheral areas tended to migrate to core locations, leaving the former lacking these basic factors of development (Connor 1974).

In addition to disparities associated with the uneven development of industrial and agricultural sectors, different sectors of industry have varied in degree of success or stagnation among sectors and regions according to the goods produced. In most of the socialist countries, the heavy industrial sector, particularly that oriented toward productive goods, was given priority over agriculture, light industry, and other economic sectors (Turnock 1989). At the same time, different patterns of industrialization were pursued that benefitted certain areas variably, as national plan priorities changed. In Yugoslavia finished goods production was concentrated in the urban areas of the northern republics, while agricultural and raw materials production was focused in the South. A similar pattern formed in the Soviet Union in the Northwest and Southeast, respectively.<sup>10</sup> Disparities in development levels of these contrasting regions have resulted due in part to the changing policies and needs of the countries. In order to compete in the international markets (and satisfy national demand), finished goods production received more favourable terms of trade and government attention over other sectors. In many cases, after the Second World War new heavy industrial plants were located in the backward regions of a country. This policy was followed in part to stimulate these lagging areas in the interests of balanced

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<sup>10</sup> The Soviet experience is typical of the post-war regional development policy of countries adopting the command economy. During and after the Second World War, many industries were moved from the more-developed Northwest to less-developed Southeast in many of the Eastern European countries and the Soviet Union. The aim of this complex, balanced development was to cut down on the cost and difficulties involved in the transportation of goods among regions, as the existing physical infrastructural system was inadequate. However, while products were being shipped to the Northwest, sufficient investments were not being channeled to the Southeast to finance future development. Inadequacies in the existing physical infrastructure of the Southeast constrained development among the less-developed areas, while funds were increasingly channeled to rebuild the Northwest from its wartime decimation (Dunmore 1980). In Czechoslovakia, the region of Slovakia (as opposed to the Czech areas) experienced a similar situation under a highly centralized system. A pattern of more highly developed finished goods production was fostered in the West, while limited development of Slovakia (mainly concentrated in the primary sector) contributed to spatial disparities in development levels.

growth (in addition to the desire for national security, as these areas tended to be further away from national borders). As state and national priorities changed, however, these often oversized and inaccessible factories distanced from areas of highest market demand were passed over in favour of industries in more accessible areas. This continued to benefit urban areas, and regions having existing advantages for investment (e.g. skilled labour force for finished goods production, existing physical infrastructure, proximity to national and international markets).

It is argued by some theorists that most of the countries in which the command system was implemented were primarily agricultural and required an industrial "leap forward", due in part to the need to compete on the international market as well as national defense considerations (Wilczynski 1970; Winiecki 1988; Kozma 1982). On the one hand, without the driving need to keep pace with the Western countries, more gradual and equal development might have been pursued. The concentration of development in the industrial, urban sector was not considered an inherent function of the plan. According to this view, had the geopolitical situation been different, the plan might have been more free to promote equity. On the other hand, the plan itself is constructed by a small elite. Therefore, it may tend to favor only those regions and sectors which have political clout.

### **1.1.6 Conclusion**

According to one view, "state socialism was a reasonably successful strategy of extensive industrialization, but as this task was achieved, it became redundant." (Szelenyi 1989: 212). Some reformers and economists argue that the Communist countries have experienced a period marked by a strategy of extensive development with existing

technologies (Smith 1983). Now these countries are experiencing a transition from this strategy of extensive development to one of intensive development (Wilczynski 1970; Kozma 1982). It is hypothesized that the capitalist countries went through a similar crisis in the switch from extensive to intensive production in the 1930's, after having assimilated much of the agricultural society into industry (Szelenyi 1989). "For the purposes of accelerating economic development . . . a greater degree of central planning [was] more necessary than maintaining more balanced, less strained growth" (Milenkovitch 1971: 4).

Earlier growth had not been maintained in the command system, nor had balanced development been achieved. Growth rates slowed, economies became increasingly inflexible, and production results became less valuable than input, as problems of low productivity and poor quality products continued (Petr 1990). "The much vaunted central planning system tended towards conserving a simplified industrial structure that was less and less capable of meeting the challenge of the world market. Soviet type economies were concerned not with matching supply and demand, but with administering inputs and outputs; in other words, the economy was detached from the consumer and producer" (Rider 1988: 139). This resulted in the inability of the center to satisfy demand or absorb supply in a balanced economic system.

Such problems affected and were effected by the inability of the socialist central governments to stimulate the development of lagging sectors and regions effectively in relation to the flourishing urban/industrial sector. These problems were also often intertwined with ethnic conflicts, leading to the further disillusionment and fragmentation/polarization of much of the population. Most of Eastern Europe and the Soviet Union attempted to reform their command system in the face of impending economic ruin and delegitimization of the government. But recent escalations of conflict among

ethnic groups in Eastern Europe (e.g. Czech and Slovak, Croat and Serb) reflect that the explosive situation has continued in spite of the general drive of most of these countries toward reform. Ethnic conflict and regional economic disparities could not be immediately addressed by the crippled government.

Centralization and the domination of the plan in the command system resulted in imbalances of power and development that were quite detrimental to regional equity. While Eastern bloc countries essentially achieved their goals of rapid industrialization, other objectives such as the reduction of inter-regional, intra-regional, and sectoral disparities were not met and long-run efficiency was compromised. This becomes increasingly apparent with the recent crises in these Communist countries. This also suggests that a series of interrelated problems based in the centralized nature of the command system, the general framework of the central plan, and the consequent concentration of capital accumulation in the informal market-dominated sector all contributed to the widening of disparities in socialist countries. "The 'top-down' nature of the decision-making processes inherent within [the command] system, and its inability to accommodate bottom-up responses, resulted in the diminution of meaningful feedback, popular participation, and policy flexibility" (Hall 1991: 82). A bureaucratic minority dictated the focus of development to the urban-industrial sector and regions, while the plan and top-down nature of the system limited general participation of the population in checking power concentrations, and preventing the imposition of development policies which were unsuited to the situation of their regions, which may be more oriented towards agriculture or other economic sectors (e.g. trade, services).

Some analysts hold, however, that the command economy has been relatively effective for the initial stage of socialist development: because the bureaucracy has become so burdensome and production and circulation relations so inefficient following the initial

period of extensive industrial development, initiatives were being taken to deconcentrate and decentralize development for the next stage of socialism (Smith 1983; Wilczynski 1970; Szelenyi 1989). Many theorists agree that in the process of transition to socialism which has been accompanied by changes from extensive to intensive patterns of growth, socialist countries have needed to go through three main stages: firstly, reconstruction following the war; secondly, extensive industrialization, concentration in urban areas, and centralization of decision-making in order to achieve a certain level of sustained development; and thirdly, deconcentration to rural areas and decentralization of decision-making, in which increased autonomy is given to individuals and enterprises, while the market is allowed more free reign (Post and Wright 1989).<sup>11</sup>

Many reformists believe that following this period of concentrated growth and specialized development, socialist countries may be better able to focus on more balanced development (Goldmann 1968). Reformists respond to the challenge presented by problems rampant in the command system with a call for decentralization and the implementation of market reforms. The next section of this chapter will concentrate on the rise of market socialism as an alternative strategy for regional and economic development, the ways it was implemented in Eastern Europe, and how it has performed in terms of regional development.

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<sup>11</sup> However, this does not take into account the human or environmental costs involved in development, or the long-term accumulation of inefficient practices, bad work ethic and lack of motivation, aging factories in need of repair, or needs for new innovations. This also assumes that industrialization and planned economic activity is necessary for socialist development.

## **1.2 The Market Socialist Model**

Many socialist countries have chosen selectively to reform their politico-economic systems from the original Soviet-style command system. This was prompted in large part by general discontent with inefficiencies seemingly inherent to a strictly top-down plan-dominated system. The command strategy had not adequately addressed the causes and problems associated with unbalanced regional growth and the widening of regional and sectoral disparities, as well as the inability of the central government to coordinate supply and demand. These problems became particularly pressing in the light of the increasing inability of the Soviet Union and Eastern Europe to compete in the international arena. As many initial reforms could only treat the symptoms of the problems, the socialist countries found that more substantial reforms were required. These reforms consisted of a greater role for the market and a looser, more macro-economic role for the plan, in addition to decentralization of the decision-making structure to the lower levels of the administrative hierarchy.

Many socialist countries have moved toward selective decentralization, in which overall central planning was maintained, while some responsibilities were delegated to branch associations, regional bodies, and enterprises. In many cases, the productive goods and financial sectors continued to remain under direct control of the central government, while agriculture and the production of many luxury goods were privatized and decentralized. In most cases the service sector was also freed of government control (e.g. pricing). Profitability became generally accepted as the main criterion of enterprise or collective efficiency. Prices were still planned and manipulated by the center in order to ensure equilibrium of supply and demand, and could be set according to the nature of a good, whether it might be oriented toward production, basic consumption, or luxury



consumption.<sup>12</sup>

While such economic and political reforms were eventually put into effect, it remained unclear exactly how these changes would affect regional patterns of development. No distinct formal regional policy was outlined by the original centralized state in the command systems of many socialist countries, and this lack of a coherent regional planning policy persisted in spite of the reforms. A specialized development pattern clearly resulted under the command system in which the urban/industrial sector flourished at the expense of the rural/agricultural sector. While advocates of market socialism were interested in stimulating a more balanced pattern of development, it was unclear how this was to be pursued in congruence with other objectives such as international competition and satisfaction of consumer demand. On the one hand, decentralization was clearly seen as an essential element of market socialism, with a weakening, or "withering away" of a cumbersome and inflexible state structure. On the other, in a free market system of autonomous competitors, how could market socialism effectively control tendencies toward monopolization and capital concentration?

Market socialism, in theory, is intended to combine the regulatory ability of the central plan with the coordinating ability of the market (Schuller 1988). The strategy also is intended to take advantage of the participation of the lower levels of the hierarchy in the decision-making process. According to its advocates, decentralization in market socialism does not necessarily entail a lack of influence by the center. Many theorists feel that "by definition a

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<sup>12</sup> In this model, however, price setting and allocation of resources is not necessarily the most efficient and economically rational or devoid of arbitrary elements, as prices were determined by the central government, and often according to political or social considerations (such as the provision of cheap food and raw materials). The agricultural sector was less protected by government aid, and experienced profit problems associated with government-depressed prices for agricultural products. By contrast, luxury goods and services were in demand and had a more elastic price range and benefitted from competition in the private sector.

socialist economy requires centralization of at least some kinds of decisions. A central level of economic decision-making, a 'headquarters', is an indispensable feature of such an economy" (Brus 1973: 3). According to this view, a central authority is more fit to make macro-economic and long-term decisions for the economy as a whole, rather than allowing the market to be dominated by various self-interested sectors seeking profit maximization (Smith 1983). The means of production may be owned socially; that is, managed by a certain group of people for the good of society.<sup>13</sup> The center may influence the economic system indirectly through price regulation and other laws/regulations that constrain activity in order to eventually attain its goals (Brus 1973).

Socialist countries have met with mixed success under programs of decentralization and market reform. The following discussion will examine some of the arguments for and against the decentralization of a politico-economic system and the introduction of the market mechanism in a socialist system, as well as how these reforms have affected regional development .

### **1.2.1 Efficiency of a Market Regulated by Plan**

The greatest advantage of the market in a planned economy is considered to be its ability to coordinate information with the use of prices (Sirc 1967; Kouba 1967). This releases the state from the immense task of determining where the demands and needs of society exist, or where there are excesses or shortages of resources. However, while the price mechanism is useful as an information carrier, some overall macro-economic plan is

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<sup>13</sup> In market self-management, adopted by Yugoslavia, autocratic management is replaced by workers' collective management of the social property, which is intended to foster increased participation by the workers. Whether or not this was actually achieved in fact is a subject for some debate (See Johnston 1989; Spulber 1979).

considered necessary to guide the operation of the economic system, and modify the disequilibrating forces of the market. According to such thinking, an uncontrolled market will lead to widening disparities between regions, sectors, enterprises, and groups of people. When demand for finished consumer goods rises through the forces of competition, industries take advantage of economies of scale, many of which are associated with localization and urbanization economies,<sup>14</sup> in order to meet that demand. Historically, this has meant the concentration of an industry in urban/industrial centers, contributing to the underdevelopment of peripheral areas. In the interests of controlling these undesirable market forces, the plan is therefore of tantamount importance.

According to some theorists (Smith 1983), planning is inevitable, even in a market economy (through the use of various laws and government regulations); competitive markets need to be constructed, and need constant policing: "planning will be most effective if it works through processes designed to maximize the incremental growth of information available to the decision-maker, and to provide constantly available mechanisms for checking this information against alternative views" (Prosser 1988: 49). Thus, market socialist systems attempt to reach a balance between short-term efficiency of the market and more regulatory long-term goals of planners.

Accordingly, goods can ideally be coordinated by markets in concert with the planning data of enterprises. In order to line up supply with demand, planning balances are worked out by planning authorities and resources are allocated according to the production tasks of a

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<sup>14</sup> "Localization economies" refers to the advantages which can be derived from the concentration of a number of industries in one area (e.g. infrastructural, particularly transportation cost reduction per unit, attraction of labour, exchange of information and technology, a supportive tertiary sector). "Urbanization economies" refers to the advantages an enterprise may derive from locating in an urban area (e.g. diversified labour force, easily accessible market, supportive tertiary sector, transportation).

particular enterprise. There is also a more indirect form of "parametric" steering in which enterprises are given a set parameter by the central government within which they may function and formulate prices, wages, interest rates, or taxation (Schuller 1988: 15). The central government may also establish control indirectly through the regulation of financial services. Market magnitudes as well as parameter and financial criteria are determined, or at least influenced by central planners, and are the basis, along with the macro-economic character of economic policy, for the superior position of the central plan (Brus 1973). The state does not have to rely only on potentially incorrect or distorted reports provided by self-interested regions or enterprises (Smith 1989).

Under market socialism, the disequilibrating effects of the market may be controlled by planners through a variety of measures similar to those in a command system. These may include more favorable terms of trade and pricing for agricultural and industrial sectors located in peripheral areas, and regulations and laws limiting the actions of competing firms. In addition, infrastructure and wages may be subsidized in rural areas, and industries may be forced or encouraged to relocate to these areas. Certain industries or sectors of the economy may also receive grants or subsidies through redistribution of revenue via taxation. Thus, certain sectors chosen by the planners may be effectively and quickly developed. This may also be true at the inter- and intra-regional scale, as certain areas may be injected with investment according to the priorities of the planners.

Historically, the market socialist system has shared some of the problems associated with the command system: investment is often concentrated only in those areas in which the bureaucratic elite has vested interests. Conflicts and contradictions between market and plan may also result: on the one hand, some enterprises may demand more autonomy to compete in the market through less-constrained production. On the other hand, some

enterprises buffered by governmental subsidization would fail under such competition. According to advocates of further reforms, planning needs to be flexible to meet the needs of consumers and the requirement of technological innovation (Smith 1983) -- matters that have not been well-handled by the typically hesitant bureaucracy in a centralized command system. However, in market socialism, such distractions have actually detracted from the ability of the plan to concentrate on greater macro-economic issues. Inefficiencies have generally resulted, as planners are unable to coordinate the various sectors and regions.<sup>15</sup>

A more proper balance between market and plan has yet to be reached in reality. Examples of market socialism thus far are fraught with problems that are seemingly inherent to the system. Many problems lie in the inability of the state to coordinate the two forces. Allocations and interventions of the state have not been able to counter the circular and cumulative nature of the market (or the plan, if one chooses to think concentration is an inherent part of it). Those sectors and regions that have been most successful are those that initially had the most capital. In many situations, pricing policies influenced by the priorities of the state have tended to favour only certain sectors and regions, limiting the coordinating ability of the market. This may be seen in the case of Yugoslavia, which has

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<sup>15</sup> The market socialist model may be similar in many respects to the reformist approaches in capitalist systems. Both models require a significant amount of state intervention and decentralization of a politico-economic system. However, the market socialist system differs in some important respects. Firstly, self-sufficient development is not necessarily an emphasis of market socialism, as it is with more reformist capitalist approaches. While regional autonomy is considered desirable, this does not necessarily mean an approach will be followed that stresses sustainability. Rather, many regions have chosen to specialize in the production of certain goods. Secondly, while market socialism relies on the informational capacity of prices, the planners' ability to control competitive urges of the actors in the system is necessary in order to promote mutually beneficial results, rather than allow unrestrained exploitation and "circular and cumulative causation" (See Myrdal 1957, 1970). Thirdly, under some forms of market socialism (for example, in Yugoslavia), much of the property is collectively owned not by the state, but held in trust for the people of the particular region in which the enterprise is located. While many believe that deconcentration and decentralization is an unavoidable stage of socialist development, others maintain that it cannot be meaningful without a form of collective property ownership (other than that of state ownership) (Post and Wright 1989) The workers may collectively manage the property, and a certain amount of the profit is siphoned off to the surrounding region.

experienced nearly forty years of market socialism. In the interests of supplying basic needs, prices were kept low on raw materials and agricultural products. In some countries (e.g. Yugoslavia), other sectors, especially the service sector, were privatized and prices were allowed to form freely to coordinate supply and demand, and improve the efficiency of this sector, and contribute to the prosperity of regions which specialized in this sector. This has in part led to the underdevelopment of agricultural and rural areas, as well as those regions primarily involved in the production of raw materials. Customs regulations may also have influenced polarization tendencies, as finished goods produced mainly in core industrial regions were protected by high duties, while raw materials and agricultural products were not.

In addition to the strengthening of the market in a socialist system, there has been a call for decentralization of the socio-political system in order to address some of the problems associated with the polarization of decision-making power in the hands of the bureaucracy. Reformists stressed the decentralization of the decision-making process as a vital step in socialist development. This was seen as a further withdrawal of an overbearing, distant state from local and regional affairs so that relatively autonomous actors could participate freely in the market. This was to result primarily in more effective production efforts of self-interested firms followed by the eventual spread of production benefits.

### **1.2.2 Efficiency and Equality of Decentralization**

According to market socialist reformists,<sup>16</sup> instead of being guided by the often narrow

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<sup>16</sup> See Nove 1972 for early reformist discussions.

interests of the state, individual regions, subregions, and enterprises should have greater autonomy. A variety of benefits were expected to spring from the decentralization of decision-making power. Market socialism is designed to provide the impetus for labourers to work harder and managers to take greater risks in order to earn more. Greater stress is placed on qualitative rather than merely quantitative results of production, providing for higher-quality and more internationally competitive goods.

At the sectoral level, this would mean greater competitive ability for the individual enterprises, as the enterprises would have more to gain by operating competitively and more to lose if they failed. It was envisioned that competition between different units would raise the quality of the finished products or cut costs as a stimulus to efficiency, thereby reducing to a certain degree the waste which has historically occurred in a centralized economy. In industry, with public ownership, in which the labourers collectively own the plant, the workers should have a greater interest and responsibility for the property and for the development of the region in which they live and work, as they would have greater control over their own profits (Brus 1973). Private land owners in the agricultural sector also would have more interest in profitable techniques, and would have more information about the capacity of their land. Regional governments would be able to make more effective use of the materials and information available to them concerning their areas. Investment allocated to regions by the state would thus be more effectively used. Therefore, greater emphasis is placed on the role of competent managers and regional/local leaders in the effective use of information carried by the market.

Under this system, the actions of the regions and enterprises should be restricted by the center only by way of a framework of laws and regulations. In addition, profits from the goods and services of more prosperous areas and sectors may be redistributed to other

regions, as well as physical and social infrastructure developed according to the soft direction of the state through pricing mechanisms and other financial incentives. Ideally, small enterprises may be aided by the government in order to become more competitive. The chain of command is thus characterized by regions and enterprises acting upon local information within the constraints of government-imposed prices and regulations.

Whether the advantages of decentralization are effectively realized, however, is in large part contingent upon the central government's ability to constrain its own power. If a command economy is to reform, the reform must be implemented by the actual governing power (or its replacement) (Temkin 1989). This has often been accomplished with great difficulty, and to little degree (Spulber 1979; Gamarnikow 1968). There have been two major trends in the process of decentralized reform in socialist countries. The most frequent reform has been that of bureaucratic shuffling, in which the structure of administration remains the same, while those who occupy the decision-making positions are replaced or moved. This shuffling has had little effect in addressing the problems associated with concentration of power in the hands of the bureaucracy in a command system. The second type of reform has consisted of the decentralization of decision-making, the expanded use of market-set prices as carriers of information, greater emphasis on the stimulation of individual motivation through economic incentives, and more reliance on market exchange and competition (Petr 1990). The most extreme reform (other than adopting purely capitalistic relations) has been the adoption of a decentralized model in which the market mechanism essentially replaces the central plan. Prices unregulated by the center guide the enterprises interested in profit maximization, although occasionally prices are corrected and investments and financing oriented in the interests of achieving macro-economic goals. This reform may also be supplemented by the decentralization of structural relationships (e.g. enterprise-regional administrative relationships and control) to varying degrees.



Yugoslavia was the first to adopt this model, and several other countries subsequently followed a form of it.<sup>17</sup>

Historically, decentralization of socialist politico-economic systems has been plagued with numerous socio-political problems. Firstly, decentralization has often resulted in the devolution of decision-making power to the bureaucratic elites of the region, municipality, or enterprise, resulting in a hierarchy of centralization at the local level (Spulber 1979; Lavigne 1970). This has resulted in increasing disparities in income levels and quality of living between the bureaucracy and other groups (e.g. working class, peasants). Secondly, decentralization has often tended to increase autarchic or localistic behavior of sectors and regions, which can be fatal for countries having distinct differences and hostilities between ethnic groups. Lack of coordination between the various decision-makers has resulted in the hoarding of profits, as those regions which had comparative advantages and possessed more abundant sources of capital and skilled labour were able better to develop on their own, unhindered by the requirements of the lagging peripheral areas. A "lifeboat" policy has often been followed: more prosperous regions may be reluctant to invest in other regions, as investment may be distributed and determined by local interests uncoordinated at the national level. The failure of a decentralized system to address these problems calls into question a policy of specialization under a decentralized politico-economic system in market socialism, as the accrued benefits of such a system have tended to reinforce an unbalanced pattern.

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<sup>17</sup> For example, Hungary adopted a form of what Bihari calls "managerial socialism" (Bihari 1985). Individual enterprises are placed under a few independent and profit-oriented holding companies which would compete with each other. Capital allocations are accomplished involving a system of taxation, including deductions and returns. The holding companies would redistribute the revenue among the various enterprises. These companies would ideally have the interests of their regions in mind. This form of market socialism does not address, however, the disparity in development levels between the rural periphery and the urban areas from which the companies and enterprises are operating.

### 1.2.3 Efficiency of Specialization in Market Socialism

The premise of market socialism has relied upon the assumption that the most effective road to development is through specialization, following well-established principles of production and exchange based on comparative advantage. The reconciliation of specialized, interdependent growth in a market system with the fostering of balanced development is to come about as a result of the eventual dominance of trickle down and spread effects to peripheral areas.<sup>18</sup> Specialized development in market socialism would thus involve the movement of industries to take advantage of localization and urbanization economies based on the forces of competition, rather than by direction from the state. Moreover, under a market socialist system, specialized development would be theoretically more efficient than specialized development under the command system, as the enterprises and local/regional administrations may act more freely upon more accurate information. Thus, an enterprise may choose to utilize a certain labour force or satisfy a particular market niche, just as a regional administration may try to stimulate growth in certain areas. In a market socialist system, regulations may be set up to limit the actions of competing firms and give incentives for firms to locate in peripheral areas or in a particular sector. More often, however, the latter has not been the case. Market socialist reforms were primarily concerned with the improvement of general efficiency of production through specialization and a rational division of labour. Balanced development was a secondary goal, and was even considered simply a "given" result of market socialism.

Smith (1989) postulates that the more industrialized and urbanized Eastern European

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<sup>18</sup> Spread effects are said to come in the form of slow diffusion of innovation and development of infrastructure in the periphery and the eventual attraction of investment in peripheral enterprises, as core enterprises are increasingly plagued by diseconomies of scale (e.g. pollution, congestion, high land rents).

countries (Hungary and Czechoslovakia), as well as the Soviet Union (prior to disintegration), had shifted in the 1980s to a stage of more gradual urbanization with an emphasis on more balanced growth and intensive development. The extensive period of industrial development was considered to be essentially complete; so that more attention could be paid to balanced sectoral and spatial development.<sup>19</sup> However, the recent increase of the role of the market and capitalist relations in many of these countries seems to be furthering uneven development among various regions, and between town and country, as certain sectors or regions in the countries try to realize their relative advantage more fully, to the exclusion, or through the exploitation, of lagging sectors.

Many reforming countries (including Yugoslavia and Hungary, among others), have followed a road of specialized development coupled with redistribution to their less-developed regions. It is possible to say that economically, a road of decentralization was followed under market socialism. This resulted in a localistic, self-interested tendency in many regions and smaller spatial units, thereby widening variations in development patterns as those regions that already had relative advantages were able to outstrip growth in less-developed regions. In spite of such decentralization, power remained in the hands of the elite of each of these smaller units and regions; decentralization of decision-making to the individual enterprises and private sector did not produce adequate participatory results. As the economies of the Eastern European companies became increasingly crippled, their governments became convinced that local enterprises required more autonomy. With increased individual autonomy, however, there tends to be increased monopolization and more movement to central core locations in order to become more competitive on the

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<sup>19</sup> For example, in Hungary, since the early 1960s, efforts were made in the areas of new construction in the rural areas, in order to decentralize development (in the interests of relieving the pressure placed on the city of Budapest). Restrictions were placed on demographic and industrial growth, and industries were transferred to rural areas.

market, both of which aggravate disparities in living conditions.

There is a seeming contradiction here between decentralization and specialization. Specialization requires concentration -- concentration of economic power in a certain region, class, or urban area. By contrast, decentralization may require a network of more self-sufficient and autonomous areas essentially independent of a dominant core. Even here is the danger of the accumulation of power in a local or regional center, rather than a balanced distribution of decision-making power with relatively equal participation by various individuals and social groups. Market socialists have not adequately addressed these problems.

#### 1.2.4 Conclusion

The difficulties that are possibly inherent to a market economy are numerous:

there are [yet] no historical examples of distinctly socialist socio-economic aims being achieved via reliance on a regulated market. On the contrary there are strong grounds, both a priori and empirical, for claiming that the market 'has a logic of its own' which, if allowed to develop to the level of the dominant mode of economic regulation, tends to produce characteristic problems, notably unemployment, inflation . . . and market income inequalities (Cockshott and Cottrell 1989: 72).

In a market system, the dominant overall goal of enterprises is the maximization of profit, which tends to supplant the role of the plan in directing and coordinating enterprises to the perceived ideal economic and social situation.

Conservatives respond to the problems under the reformed systems with a call for the strengthening of the state and the role of planning (See Sirc 1967). "The market is

predictable in its ability to perpetuate the existing pattern of distribution, changing no more than disparities of wealth and power, and changing them by widening the gap between rich and poor . . . those who go into the market system with the most are likely to come out of it with the most" (Prosser 1988: 46). Many theorists feel that this is the case unless a system provides mechanisms or implements policies that may be employed to avoid this (such as a strong regulating central government which can invest and subsidize a lagging sector) (Kouba 1967).

There are arguments, however, against a more centralized market socialist economy: central plans tend to impede the efficiency of the processes of free enterprise, competition, and innovation (arguments discussed in the previous section on command economy). Many theorists<sup>20</sup> strongly believe that the central plan was the fastest route to extensive industrial development, while the existence of a free market in a neoclassical system is the most efficient and direct route to balanced, higher development (as supply may more effectively be made to satisfy demand). According to these reformists, more intensive development has been accomplished to a greater degree, historically, by market economies, with the eventual spilling over of benefits to the lagging regions.<sup>21</sup>

Many reformists now favour a type of growth that closely resembles the neoclassical model for capitalist societies, despite the fact that this model may not in fact resemble capitalist

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<sup>20</sup> See Gamarnikow 1968; Sirc 1967; Smith 1983; Smith 1989; Szelenyi 1989; Wilczynski 1970. A number of theorists (including Brus in particular), have continued to advocate a market socialist system in which there remains strong central control. More recently, however, the problems of socialist economies have been increasingly attributed to the concentration of decision-making power to the central state.

<sup>21</sup> The difference in capitalist development experience between the "First" and "Third" Worlds should be noted, however. Most Eastern Europeans tend to look to the First World as the typical model of capitalist development. While it is possible for the formerly Communist countries to have a similar experience as the First World under a reformed socialist economy, it is not inconceivable that their development may flow in an entirely different pattern. Little attempt has been made, as yet, under a command system to promote intensive or more balanced development.

societies. In its purest theoretical form, this model calls for specialized, efficient development of a dynamic (most often, urban/industrial) sector (and the regions in which this sector predominates) and redistribution to the lagging sector. Reformists also call for increased decentralization of decision-making, more equitable living conditions, and increased political pluralism and democratic participation. It has become increasingly evident that the market socialist system, as well as the command system, is essentially crippled unless the working of the plan and the market is controlled by a democratically-elected body, in order to prevent bureaucratic corruption and monopolization of power (Schuller 1988; Brus 1975).

While there has been a tendency for many Western economists to prescribe traditional neoclassical remedies based in the capitalist market for the ailments of socialist economies, an uncontrolled market may prove to be disastrous due to the widening of disparities and the compounding of inflationary and unemployment problems (Sirc 1967). The alternatives may be few, however, in the eyes of the decision-makers, as it becomes increasingly obvious how restrictive the domination of the central plan can be. The question still lies unanswered as to whether a socialist economy can prosper in the long run under the plan, or whether it is possible to attain an effective balance between the "conscious" modes of planned decision-making, and the "unconscious" (but nevertheless, seemingly more efficient, at least in terms of stimulating growth at this point in time) forces of the market.

A balance between centralized decision-making and more decentralized participation also remains to be reached, for the special cases of each region. Increased autonomy for local and regional units has contributed to the fragmentation of some of the socialist countries, especially those which are ethnically diverse. It is unclear how these overcompensating extremes in the distribution of decision-making power can, on the one hand, concentrate

power and development in the interests of macro-economic and long-term planning, and, on the other, allow for relatively equitable relations between market actors in order to promote efficiency. Most important in terms of various paths of regional development, is how each system structures and follows its regional policy in practice. Some balance between specialization and self-sufficiency has been advocated, in line with the differences of each region during different time periods, in the interests of fostering balanced growth while simultaneously maximizing regional efficiencies.

Historically, the command system, and to a lesser degree, the market socialist system, were implemented rather uniformly in Eastern Europe and the Soviet Union. The Soviet Union set the pace and pattern of concentrated urban/industrial regional development and this was closely followed by its Communist neighbours. These abstract socialist economic models have existed in a political and social vacuum divorced from the historical realities of the various countries and regions. The specialized strategy of development may have been appropriate to some of the regions of these countries. However, other regions may have responded better to more diversified stimulation by the center, in order to be consistent with the variable attributes of each region or country. Instead, only those regions suited for industrial development have met with any amount of success, at least in the short term, considering the general conditions in some socialist countries which developed with the implementation of market socialism. The inability of socialist strategies to cope with socio-cultural, geographical, and historical diversity specific to certain places has been a tremendous shortcoming of socialist development. Yugoslavia is a prime example of these wide diversities and demonstrates the inadequacy of socialist efforts to coordinate these factors.

The following chapters of this thesis will examine the structures and forces of socialist

development practice in Yugoslavia and how these have affected and been effected by Yugoslav spatial diversity over time. In order to demonstrate the depth of this diversity with which the Yugoslav Communists had to cope following the Second World War, the historical and geographical foundations for development prior to 1945 will now be considered.



## CHAPTER 2. PRE-SOCIALIST YUGOSLAV REGIONAL DEVELOPMENT

### 2.1 The Universalizing of Socialist Strategies and the Power of Regional Diversity and Disparity

The previous chapter reviewed the theoretical frameworks of the command and market socialist economic models, and the historical reality of regional disparity which emerged under these systems in Eastern Europe and the Soviet Union. Many arguments could be used to explain the inability of these strategies to address national disequilibria, including problems arising from uncontrollable externalities, low overall national development, and bureaucratic incompetence. But in terms of the actual regional strategies themselves, a central problem stemmed from the fact that, for the most part, these strategies were overwhelmingly abstract and economic in focus, and did not take into account particularities of place.<sup>1</sup>

In each of the socialist countries, variabilities based on physical geography (e.g. less-developed mountainous and inaccessible areas) had evolved through time among different regions. Despite this variability, the Communists stressed a generalized economic and industrial development. This perhaps would have caused few problems in a country that was uniformly prepared to industrialize. But many socialist countries were rife with internal divisions; and while some areas were relatively more-developed, accessible, and prepared for an industrial take-off (e.g. western Czechoslovakia, northwestern U.S.S.R., northwestern Yugoslavia), other less-developed, predominantly agrarian regions were not capable of shifting efficiently and quickly into an industrial economic system. The

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<sup>1</sup> According to its simplest meaning in the context of a geographic study, place is defined as "a portion of geographical space occupied by a person or thing" (Johnston 1986: 346). The purpose of this study does not include a deep consideration of the internal debates of the discipline of geography itself. Nevertheless, it is important to note that many terms have contested meanings and concepts associated with them. For a detailed discussion of this, consult Johnston, et al 1986, or new additions of the same text.

application of a universalizing Communist strategy of rapid industrial development was not likely to iron out the differences in culture, economic and political structure, social practice, and consciousness that distinguished one region from another. Nor was the weight placed on the primary goal of industrialization likely to be balanced by largely perfunctory and inadequate Communist efforts to ameliorate disparities among these regions through redistribution.

The Communist administrations of each Eastern European country adopted a blanket model of socialist development created by and for the Soviet Union. They attempted to impose a centralized model that unfortunately, proved to be inflexible to diversity. In the interests of rapid economic growth through uniform industrialization, Communist theorists failed to consider such elements as ecological and social relations existing in specific places at particular times. For Yugoslavia, this meant that certain areas (notably in the South) with underdeveloped pre-capitalist political economies, were not suited to the kind of development promoted by the Communist government. Such systems, primarily based on agrarian relations, were forced to attempt a rapid metamorphosis into urban/industrial systems. Because of this, many of the evils associated with rapid industrialization and urbanization were amplified (including congestion, environmental degradation, lack of housing, and unemployment), while the agricultural sector stagnated as valuable arable land lay fallow or inefficiently utilized.

The market socialist model contrasted with the command model in form, if not in result. On the one hand, many so-called market socialist models (e.g. early reformed socialist Yugoslavia) retained vestiges of the command system's centralized structures and methods and continued to impose a standardized form of development on regions which perhaps required more differential treatment. On the other hand, extreme market reforms and

decentralization without the buffer of the central government left many unprepared regions to the mercy of the market. Thus, in market socialist Yugoslavia following the 1970s, redistribution (through a Federal Fund) to lagging areas was unable to counter the negative circular and cumulative effects of the market on underdeveloped regions, despite additional efforts of the government to control market forces through pricing and regulation. In fact, the intervention on the part of the government tended to disadvantage the underdeveloped regions: the unequal terms of trade imposed on agriculture and heavy industry through pricing and regulation practices may have unintentionally contributed to the momentum of the downward spiral experienced by the less-developed regions.

Before I embark on an explanation of the Yugoslav case, it is important to note the differences between the Yugoslav model and the market socialist models implemented in other Eastern European countries. Yugoslavia was the only market socialist country to interact extensively with the West. The most significant examples of this interaction were Yugoslav-Western trade, the boom of foreign tourism in Yugoslavia, and the temporary migration of Yugoslav workers to the West. In order to understand why the Yugoslav model differed so significantly from other market socialist models (until more recently), it is necessary to understand the ideological and practical conflicts that occurred between Yugoslavia and the Communist bloc, preceding reforms in Yugoslavia.

Like the rest of Eastern Europe, Yugoslavia was initially modeled after the Soviet Union. But due to the Yugoslav government's reluctance to allow itself to be subordinated to the Soviet Union, Cominform expelled Yugoslavia and enforced an economic embargo against the country. Yugoslavia was initially crippled by the actions of the Eastern bloc, but the Yugoslav government was supported internally by a national consensus (of desire for independence), and also externally by the Western world (which wanted Yugoslavia

independent from Soviet control, as an example for other Eastern European countries to follow). In order to emphasize Yugoslavia's independence, the Yugoslav government proceeded to construct an ideology that supported "different roads to socialism" -- models which would be designed according to the special circumstances of each socialist country. The Yugoslav ideology criticized the Soviet command model for being a form of "state capitalism" (which justified Yugoslavia's interaction with Western capitalists), and the Yugoslavs thanked circumstance that they could avoid the negative attributes of the command system through decentralization and market reforms. To be realistic about the needs and desires of the country, Yugoslavia's leaders realized they needed the West for military and economic support. The Yugoslav Communists justified this stance by declaring a policy of non-alignment and peaceful coexistence with other countries, discarding the ideological need for pursuit of world socialist revolution. Yugoslavia opposed "imperialism" of all forms, including Soviet imperialism: the foreign policy of Yugoslavia ultimately tended to be an isolationist (nonaligned) self-interest which juggled West and East according to the needs of the country (Nord 1973).

On the one hand, the Yugoslavs were certain of the superiority of their system to the West, and thus were willing to allow trade, foreign tourism, and temporary Yugoslav worker migration abroad (which also relieved unemployment). Yugoslav leaders also allowed this interaction in order to promote internal consensus, and to appear more democratic to the West. Yugoslavia wanted Western aid and goods and did not see this as opposed to their specific path to socialism. While the Yugoslav leaders were initially apprehensive of foreign influence, they saw that the West would not interfere in Yugoslav affairs (as the West was satisfied that Yugoslavia was independent).

The above discussion may appear to indicate that when the Yugoslav government reformed its practice and ideology of socialism, it was engaging in an exercise of pragmatic adaption to different circumstances, regardless of the ideology which was attached to most socialist strategies. The Yugoslavia strategy may also appear to have been more flexible than the command strategy, as the Yugoslav government encouraged a different form of socialism for each different country. However, the ideology which the Yugoslavs constructed (with such terms as "democratic centralism" and "self-management") still justified the dominance of the Party and its regional policy preferences (i.e. heavy industry), which limited any possibility of government flexibility to the changing political, economic, and social circumstances of Yugoslav regions (Halperin 1958). Even though ideological differences, and practices of interaction with the West, distinguished Yugoslavia from the rest of Eastern Europe, the intertwining ideology and practice which remained in Yugoslavia did not adapt to the needs and capabilities of the different regions in the country.

The purpose of this chapter is to outline these differences among Yugoslavs regions which had developed prior to the assumption of power by the Communists. This is important because Yugoslav Communist planners were unable to cope adequately with the series of problems inherited from the past, in addition to those that arose more recently under socialism. The tendency for inherited conditions of development to persist despite equalization measures was underestimated by the Communists. Such factors as ethnic grievances and regional disparities in the development of physical and social infrastructure had often accumulated over centuries and were not so quickly and thoroughly generalized in a process of uniform industrialization.

The adoption of socialist models of development which were not flexible to these inherited regional conditions was clearly disastrous to many countries. In a majority of socialist

countries, the environment was severely damaged, and social -- particularly ethnic -- tensions rose, reinforced by economic disparities among different social groups. Cultural and religious differences (as well as gender relations) were not adequately addressed, contributing to a lack of harmony and efficiency of Communist systems and ultimately their hyper-factionalization and break-down.

For the case of Yugoslavia, ethnic differences are of central importance. In Yugoslavia and many other socialist countries, economic problems related to increasing regional disparities were compounded by social problems associated with ethnic conflicts. The right of national self-determination was considered an integral part of socialist doctrine. However, according to traditional socialist theory, ethnic and religious differences are generally considered to be remnants of capitalist society which would gradually disappear through the process of socialization (Post and Wright 1989). Thus, ethnicity was marginalized as a factor of development in Communist systems: the fading away of religion and culture was assumed, even while ethnic regional differences were given recognition by Communist officials.

In the practice of socialist development, central planners found themselves in a position in which they were forced to grapple with regional and/or nationality grievances over spatial distributions of the benefits of production. These factors persisted, bounded by a sense of place<sup>2</sup> specific to a region. Rather than dispersing, integrating, or gaining a collective "Yugoslav" consciousness, the Yugoslavs remained divided: Slovenians tended to remain in Slovenia, Macedonians in Macedonia, Croats in Croatia, and each continued to experience little interaction with surrounding ethnic groups. The rifts between peoples of

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<sup>2</sup> "Sense of place" has been defined as "the consciousness that people themselves have of places that possess a particular significance for them, either personal or shared" (Johnston 1986: 425).

different religious traditions underlied and reinforced this fragmentation, as the Muslims of Bosnia, Macedonia, and Kosovo were isolated from Christian populations, and Catholic Slovenes and Croats drew further from the Orthodox Serbs and Montenegrins. The tendency for fragmentation grew, especially in more recent years, and ultimately led to secessionism and civil war in 1991.

Many non-Yugoslav examples of the failure of the socialist models to address diversity could be cited. The government of the Soviet Union was unable to promote efficient cooperation among its ethnic groups, or bridge the gap of suspicion and misunderstanding between its Islamic and Christian communities.<sup>3</sup> Nor were the Soviet Communists able to effectively address regional disparities -- under socialism, the former western republics (particularly Estonia, Lithuania, Latvia, and Russia) maintained their superior development relative to other republics. In Czechoslovakia, ethnic and linguistic differences between the Czechs and Slovaks limited integration between the two regions in which these groups are located. The Czechoslovakian Communists were also unable to match Slovak development to that of the more-developed Czech republic .

Ethnic tensions clearly remain in a number of regions of countries which are or were socialist countries and in many cases seem to be escalating at this time. This contributes to

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<sup>3</sup> These examples illustrate the variations in spatial interaction among different social groups. Certain groups seem to be incompatible, just as the Kosovan Muslim Albanians have been incompatible with the Orthodox Serbs, with whom they had previously shared the province. This incompatibility has led to the mass exodus of Serbs from Kosovo, and the increasing insularity of the Albanians. These divisions have had profound effects on economic relations involved in production and circulation: an unfavorable division of labour and worsening of relations between the Muslim less-developed southern regions and the more industrialized Christian north has hampered efforts of both regions to develop more fully. Problems that limited integration constrained disadvantaged groups in relatively disadvantaged localities, and served to aggravate disparities which ultimately spiraled into worsening relations between the ethnic groups. In many parts of Eastern Europe and the Soviet Union, majority ethnic groups who experienced relatively higher standards of living or were favoured by better infrastructural development usually accumulated capital and decision-making power disproportionate to their numbers. This prompted an eventual outcry from disadvantaged groups.

the further fragmentation of these countries which have already been pulled apart by centrifugal forces associated with the widening of national, inter-regional, inter-sectoral, and intra-regional economic disparities. It is the diversity of inter-relatedness resulting from human movement and development within the context of place which the Communists failed to take into account adequately. Migrations, population growth, and culture are all rooted in the land and are reflected in such things as the performance of workers in a mountain factory, the patterns of roads and architecture, and the spending patterns of people as they contribute to the economic structure of a region. As a consequence of government ignorance, ethnic regional diversity has proven to be one of the most important social factors contributing to problems of development in countries such as Yugoslavia.

## **2.2 A Historical Interpretation of Yugoslav Regional Development**

The previous section highlighted the problems of socialist strategies with regard to regional diversity and disparity in Yugoslavia and other countries. In order to interpret Yugoslavia's regional development, it is necessary to gain a more specific understanding of the depth and extent of this regional difference. In Yugoslavia, each region experienced a different historical development based, in large part, on a varied physical geographical endowment (Singleton and Carter 1982). Current Yugoslav development patterns are characterized by disparities between the ethnic regions of the less-developed South (Kosovo, Macedonia, Bosnia and Hercegovina, and Montenegro) and the more-developed North (Croatia, Slovenia, Serbia, and Vojvodina) (See Figure 2.1), as well as intraregional disparities between rural and urban areas. Inherited conditions proved to be a difficult obstacle for the Yugoslav Communists to overcome. Although many of the current regional disputes in Yugoslavia are based on decisions that were made under Communist rule, patterns of regional growth existing today were clearly established prior to the Second World War.



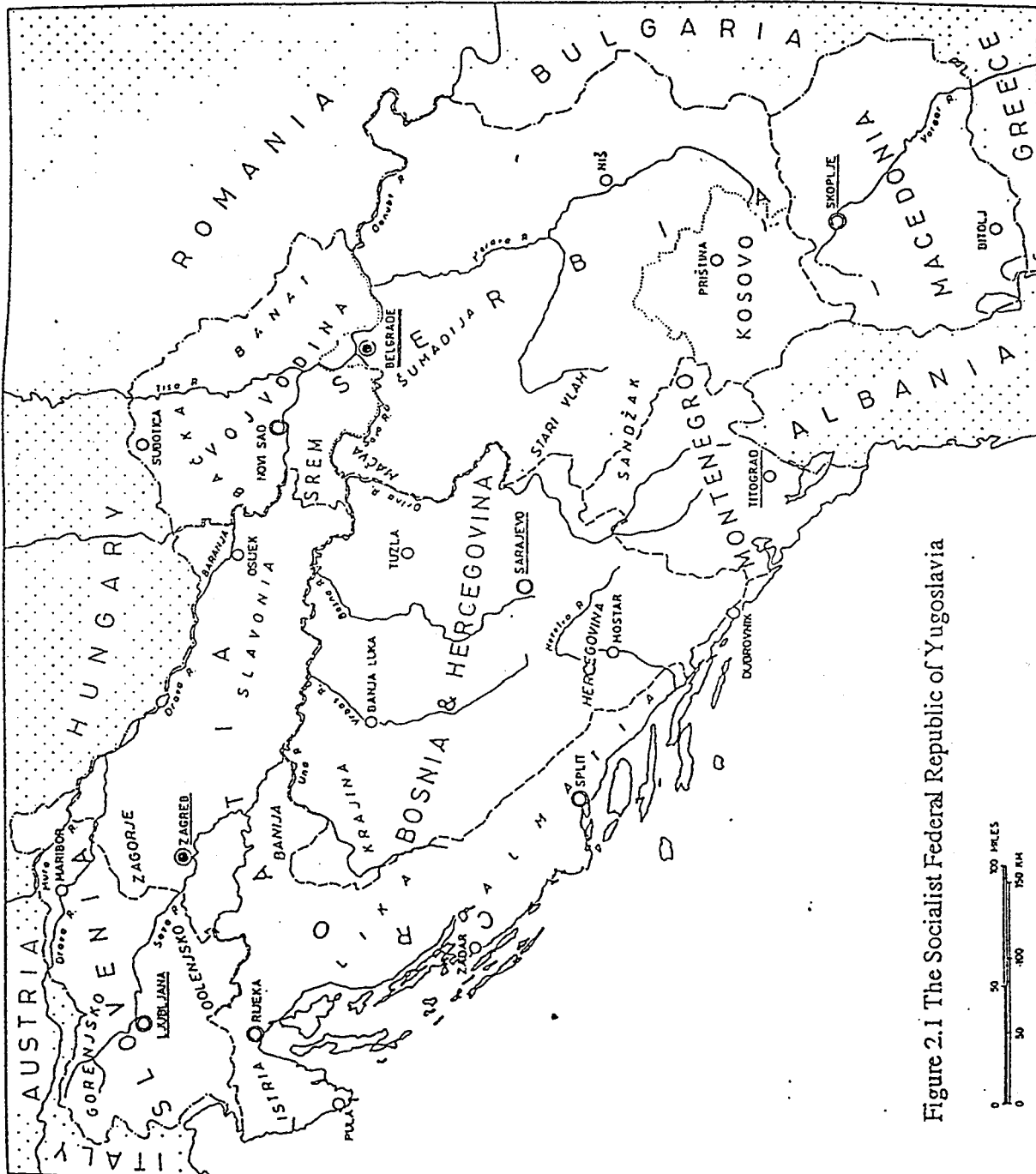


Figure 2.1 The Socialist Federal Republic of Yugoslavia

The area that is now Yugoslavia experienced a series of dichotomies in terms of power and growth, many of which persist to this day. Many authors (Moore 1980; Devetakovic 1989) believe that present interregional variations in growth in Yugoslavia were primarily influenced by levels of development at the time of Communist takeover:

"The degree and speed of adoption of [industry and transport] varied with the occupying power, [whether Austrian, Hungarian, Venetian, or Turkish], and with the nature and situation of its South Slav lands, giving differential regional progress, including complete stagnation. Economic and social differences, sharpened in the 19th century . . . had their origins in foreign colonisation, cultural influences, social systems and economic policies in earlier periods" (Hamilton 1968: 19).

The regions of Yugoslavia developed separately until the unification of the South Slavs following the First World War. These divisions were most influenced initially by the physical geography of the area. As political, economic, and social divisions arose among the ethnic groups of Yugoslavia which were constrained by the physical divides, a number of foreign powers exerted differential political, economic, and social influence over each ethnic region. The varied treatment of Yugoslav regions contributed to the eventual materialization of marked disparities, particularly between the Austrian-dominated Sern areas and the Turkish-dominated South. Such regional diversity and disparity remained substantial, in spite of the political and administrative unification of the South Slav regions following the First World War and the subsequent attempts of the inter-war Yugoslav government to encourage economic and social integration. In addition, inter-war efforts to stimulate industry to the exclusion of agriculture might have also contributed to the widening of disparities.

An elucidation of the historical and geographical foundations underlying the spatial diversity of Yugoslavia sets the stage for the examination of the performance of post-war development approaches adopted by the Yugoslav Communists. The regional differentials

in Yugoslavia clearly arose prior to the Communist assumption of power. However, disparities between the regions have not decreased under socialist development models. On the contrary, they seem to have widened. It is the intent of this thesis to examine this tendency within the context of the accumulated development in Yugoslavia previously under capitalism.

### **2.2.1 A General Historical Overview of Yugoslav Regional Development Prior to 1918**

The historical development of Yugoslavia has exhibited a number of general trends. At a horizontal level, it has been characterized by the fragmentation of the regions of the South Slavs in terms of cultural, political, and economic relations. At a vertical level, it is characterized by different levels of development in each region. This section will sketch out the general development patterns which arose among the South Slavs prior to the unification of Yugoslavia.

It is possible to say that the division and widening of regional disparities among the regions of Yugoslavia were primarily influenced by the history of human movement and development over space, rather than the actual physical geography of place. However, it is also possible to say that the physical attributes of Yugoslavia contributed to the fragmentation of its regions, particularly in earlier times. Furthermore, this lack of unity contributed to the inability of the Yugoslav peoples to spurn foreign dominance with the accompanying differential regional treatment by external powers, and the subsequent widening in levels of regional development. While not necessarily a determining factor, the physical conditions of Yugoslavia had a great deal of influence on regional patterns of development. While providing plentiful resources, the mountainous terrain of Yugoslavia,

for example, also created barriers between the settlements in the area, isolating them from one another. "The Dinaric mountain range that runs north-south the full length of the country, separating the Adriatic coastline from the interior heartland . . . historically inhibited [peoples that] migrated to the area from forming a larger union. It . . . also exposed the various natural regions on either side . . . of the mountains to conquests which left a legacy of various patterns of development" (Plestina 1987: 311).

The Austrians, Turks, Hungarians, Germans, and Italians have all vied for dominance over the Balkan corridor between the West and the East, and the South Slavic area has served as the buffer zone between these two very different worlds. Consequently, very different patterns of culture have emerged: Slovenia and Croatia have been most strongly influenced by the West (and the Germanic peoples in particular), Dalmatia by the Italians, and the southern regions of Yugoslavia by the Byzantines and Turks. Yugoslavia is located on the strategic land-bridge between the Christian and Islamic worlds, and divisions between the East and the West have persisted despite Communist efforts to narrow these differences. The divisions have served to limit social and, subsequently, political and economic integration among the Slavs inhabiting Yugoslavia. In addition, resulting tensions have been further aggravated by variations in the political and economic development of different regions under the domination of distinct empires.<sup>4</sup>

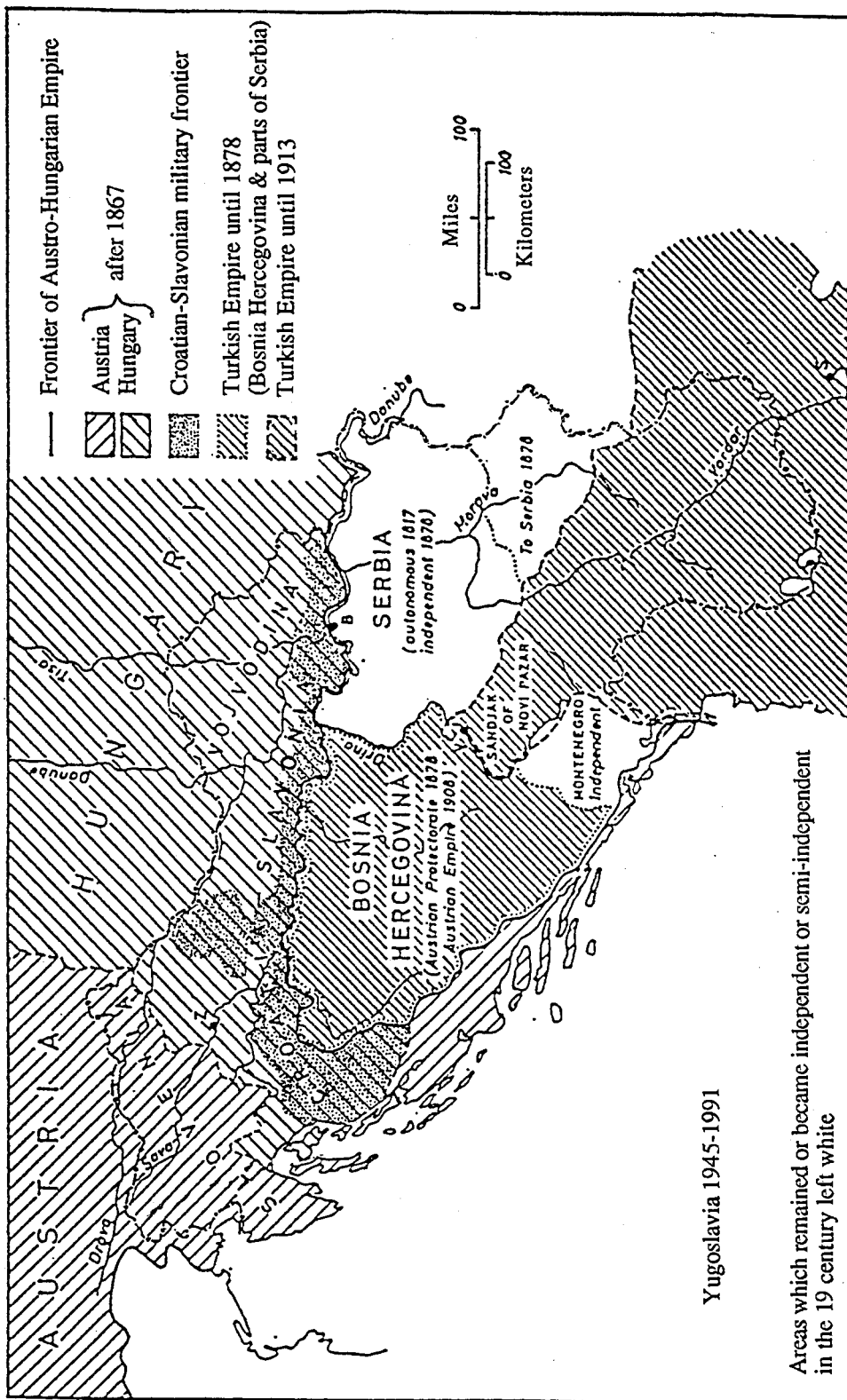
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<sup>4</sup> The conquering of much of the Balkan area by the Turkish and Austrian Empires clearly provided the most profound and lasting influence on patterns of regional and economic development. Before this time, the Balkan regions experienced varieties of tribal migrations of Slavs into the area during the seventh century A.D. A number of empires and kingdoms arose, including the Croatian and Serbian Empires, and a Germanic Slovenian state. All these movements and events have served to unify the respective ethnic groups into virtually autonomous social, economic, political, and religious units with nationalisms which could not be overcome by the unification efforts of the Communists. Nor have the Communists been able economically to integrate and unite the areas which had been for all purposes severed for centuries. All of these movements are certainly of tantamount importance to any study of regional development or general study of Yugoslavia. However, while influencing later national movements that are significant at present, none of these empires and states were as economically significant as the more recent legacy of five hundred years of dominance by the Austrians and Turks.

The previous lack of unity among the Yugoslav ethnic groups and regions, developing over time and bounded by physical divisions, contributed to their domination by external influences. The present horizontal social divisions among the Yugoslavs resulted from the emergence and stabilization of the different Yugoslav ethnic traditions. These social divisions were aggravated by a number of historical events which later had an influence on patterns of foreign dominance and subsequent political and economic development.

Some of the most profound of the divisions among the Yugoslavs may be traced back to the schism that divided the Catholic and Orthodox churches in 1052 A.D. The Slovenes and Croats sided with Rome, while the Serbs, Montenegrins, and Macedonians were most influenced by the Byzantine civilization based in Constantinople. This served to deepen the differences in northern and southern practices in social relations, as well as in business and administration (as will be examined in greater detail later in this chapter). In addition to being fragmented by religion, the northern and southern Slavs were divided by language and text (Latin and Cyrillic, respectively). Over time, differences in language and dialect increased between these geographically separate Slavic areas. This lack of unity among the Yugoslavs contributed to the further fragmentation of Yugoslavia, as the Turks eventually extended their influence into former Byzantine areas, and the Austrians into the Catholic regions of northern Yugoslavia (Kerner 1949).

The current boundaries between the less-developed and more-developed regions of Yugoslavia coincide roughly with the historical borders between the Turkish and Austrian Empires, which also followed the border between religions (Schrenk, et al 1979: 11) (See Figure 2.2). Serbia (which at the time of Turkish conquest included Macedonia and Kosovo) and Bosnia and Hercegovina were under Turkish rule for five centuries, while



Areas which remained or became independent or semi-independent in the 19 century left white

Figure 2.2 The Pattern of Foreign Domination before 1914  
 Modified from the original in Hamilton 1968: 16

Slovenia, Croatia, and the region of Vojvodina were under the rule of Austria and Hungary.

The differences in foreign treatment of the Yugoslav regions eventually gave rise to more substantial economic variations in development over and beyond the original horizontal regional divisions among ethnic groups. Natural resources found south of the Sava-Danube line (under Turkish rule) remained relatively untouched during this era of foreign control, while economic development and industrialization began in the latter part of the period in the northern areas under Austria, including the gradual building up of industry and physical and social infrastructure. "Ottoman policy rarely went beyond establishing and maintaining feudal institutions. It did very little to improve agriculture or transport and was apathetic to industrialization" (Hamilton 1968: 23).

The differential treatment of the regions resulted in wide disparities between the northern and southern areas -- these discrepancies often tended to transcend the bounds of physical geographical circumstance (Singleton and Carter 1982). "The modern paradox, that the areas of Yugoslavia which are most richly endowed with mineral resources and other industrial resources are the least economically developed, can only be understood in the context of the long centuries of neglect from which Yugoslavia south of the Danube-Sava line suffered during the Ottoman period" (Singleton 1976: 42).

However, the advantages associated with development under Austrian rule were not necessarily absolute. It has been argued that while many aspects of Hapsburg rule were beneficial to areas under their dominance through development of industry and infrastructure, the goals of the Empire were often of an exploitative nature (Singleton and Carter 1982). "The Imperial governments treated their South Slav territories as colonial

sources of food, materials, and manpower. But whereas the [Ottoman] Sultan's economic policies were conspicuous by their absence, those of the governments in Vienna and Budapest were complex, all-pervasive, and required a sizable bureaucracy" (Hamilton 1968: 23). Dalmatia, Croatia, and Slovenia were subjected to an efficient administration that developed these Yugoslav areas according to Austrian political interests.

Nevertheless, while Austrian-dominated areas generally received little direct industrial stimulation from Austria, Slovenia and Croatia benefitted indirectly from provision of railway infrastructure and investment capital from the central banks of Austria and Hungary, in addition to the diffusion of more efficient merchant, legal, and political practices (Hamilton 1968; Lampe and Jackson 1982). These factors remained distinctly advantageous in later years to the Croats and the Slovenes in particular, in spite of a lack of national unity and autonomy among the Austrian-dominated Slavs (Singleton and Carter 1982).

In conclusion, differences in administrative, economic and social relations developing over time and space have contributed to the fragmentation of the ethnic regions of Yugoslavia. These divisions were most influenced initially by physical geographic barriers, closely followed by an emerging dichotomy in religious affiliations among the ethnic groups, and subsequently by variations in the quality of rule between the Turkish and Austrian empires. These empires contributed not only to the further bipolar division of Yugoslavia, but also to the widening of disparities in standards of living between these two poles.



The following pages will examine the historical experience of each Yugoslav region<sup>5</sup> in order to more thoroughly illustrate the depth of the divisions and differences of development levels among the Yugoslav groups over which the socialist models of development were later imposed.

### 2.2.2 Yugoslav Regional Development by Region Prior to 1918

While under the influence of foreign powers, the northern Austrian-dominated Slovenia, Croatia, and Vojvodina, and the southern Turkish-dominated Serbia, Kosovo, Montenegro, Macedonia, and Bosnia and Hercegovina each experienced starkly differentiated paths of development. However, variations in development also became apparent among the sub-regions composing each of these two larger divisions.

Thus, Croatia and Slovenia benefitted differentially under Austrian administration, in large part because each ethnic region had developed a different social and economic structure prior to foreign rule, based on its physical attributes. For example, Croatia was more favoured for agriculture and thus had a more substantial agricultural sector than Slovenia. In addition, the importance of the relative strategic location of each region varied, resulting in a contrasting emphasis by the Austrians. Among the Turkish territories of Yugoslavia,

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<sup>5</sup> I have chosen to examine each region according to the political/administrative delineation of socialist Yugoslavia, rather than according to strictly ethnically or economically differentiated regions. The uncertain and strongly emotional dispute regarding the "true" boundaries and borders of each region is well-known to anyone familiar with the Yugoslav situation (See Ostovic 1952). For example, Serbs today still consider Bosnia and Hercegovina a part of Serbia proper, despite the number of Croats residing in the West, and despite the large non-ethnically-aligned Muslim population. Croats have their own nationalistic claim on Bosnia, by reason of Croatian settlements in the region. However, it is important to note that the nationalist sentiments based on "sense of place" as well as patterns of interaction among national groups was not necessarily divided according to political boundaries: there are divisions between different ethnic and social groups within as well as between these regions (e.g. the Serbian minority in present-day Croatia).

patterns of regional development prior to 1918 were most influenced by the length of time the regions were dominated. Some regions (Serbia, in particular) were able to liberate themselves sooner than others, thus benefitting from relatively autonomous development thereafter.

A number of factors contributed to the more developed state of Slovenia relative to other Yugoslav regions. Slovenia's experience under Austrian rule was particularly fortunate in terms of infrastructural and industrial development due, in part, to its favourable strategic location and physical geographic endowment. Thus, among Yugoslav regional economies, "only the Slovenian economy . . . received and responded to a conscious Habsburg effort to promote commercial development" (Lampe and Jackson 1982: 77).

Slovenia's geographical proximity to Western European markets as well as its lesser endowment of raw materials relative to other Yugoslav regions was particularly influential in the development of Slovenia. The very fact that its land was less appropriate for efficient agriculture may have spurred its drive to industrialization. In addition, lack of resources in the area favoured the development of light industry, which took advantage of a more abundant Slovenian resource: skilled labour. The Austrians focussed exploitation on abundant factors of production in the region, particularly labour, and, in the process, lay the foundations for the present relative prosperity of Slovenia through the development of physical and social infrastructure. Slovenia also lay on a major transportation route between Vienna and its dominant port of Trieste and, consequently, became a substantial focus of infrastructural development fueled by the Austrians (Lampe and Jackson 1982; Hamilton 1968). Development of ports along the Adriatic coast quickly diffused economic activities inland to Slovenia along this major transportation corridor while, by contrast, the

neighboring Croatian hinterland remained largely undeveloped until later transport links were built.

In Austrian-ruled Croatia, infrastructural and industrial development was initially quite limited, especially in the outlying hinterland areas. Unlike the Slovenes, the Croats found themselves divided among foreign powers -- the Hungarians, Austrians, and Venetians (Dragnich 1949; Ostovic 1952) -- and strangled and divided by the development policies of each country. Furthermore, agriculture was a more significant production sector of Croatia than Slovenia (which experienced more widespread industrialization and urbanization). While both the Croats and Slovenes were subjected to an oppressive foreign aristocracy and were restricted to the lowest social strata, the Croatian peasantry of the hinterland especially suffered under the confines of a feudal land tenure system, and continued to use relatively primitive methods of cultivation (Hogg 1944). Both the division of Croatia by foreign powers and its relatively backward agrarian economic structure may have contributed to the slower development experienced by Croatia relative to other Austrian imperial borderlands.

Croatia, however, benefitted (particularly in more recent post-Second World War decades) from the prosperity its Dalmatian coast experienced under Venetian rule. In addition to the natural beauty of the coastal region, the remnants of the rich and well-preserved Venetian empire remained as a significant asset for tourist revenue in Croatia (Hamilton 1971). The Austrians proceeded to develop (industrially and commercially) the major cities on the coast (most of which are currently within Croatia), with little disruption of "a valuable legacy of Italian commercial practice" (Lampe and Jackson 1982: 55). This, in addition to favourable natural conditions for tourism along the Adriatic coast, contributed to the prosperity of the Croatian coastal areas and eventually the Croatian economy in general.

By 1918, the development of Slovenia and Croatia was significantly higher than the other Yugoslav regions, as the southern regions were particularly disadvantaged under Turkish rule. However, the development of each of the southern regions also differed considerably -- the Serbs in particular were able to prosper following their liberation. After a series of revolts and gradual independence from Turkish rule, the Serbs regained their full independence in 1878. Rather than being constrained and exploited by a foreign power, the Serbs were able to focus on the use of plentiful Serbian natural resources for domestic interests. The process of urbanization and industrialization began early for the Serbs: trade was emphasized as the cornerstone of Serbian prosperity, and Serbia's urban cores became poles of attraction for unemployed unskilled workers migrating from the surrounding countryside (Lampe and Jackson 1982). This has contributed to the current prosperity of Serbia relative to other formerly Turkish-dominated regions.

It may be argued further that as a consequence of their attempts to avoid foreign domination, the Serbs became increasingly self-sufficient. The Serbs experienced victory against the Turks and Bulgarians and were bolstered by aid and volunteers which poured in from other South Slavic regions. The strengthening of Serbia relative to other Yugoslav regions during this period continued until the First World War. The development of the commercial sector of Serbia, and its role as an autonomous island amid foreign-dominated regions undoubtedly contributed to the later prosperity of Serbia. This political and cultural autonomy, if free from the decimation of many wars and the imposition of external economic pressures, could have spurred the growth of Serbia even beyond that of Croatia and Slovenia. However, the autonomy and prosperity of Serbia was not absolute. While independence severed Serbian ties of dependency on the Turkish, the Austrians were not eager to establish trade links on an equal basis with Serbia (Lampe and Jackson 1982). Serbia became increasingly dependent on Austrian trade in the ensuing years, and a type of

informal colonial relationship resulted. Such factors as education, cultivation techniques, and political and social organization remained relatively primitive and inefficient by Austrian standards, as more-efficient Western technology and practices did not readily diffuse to Serbia. In addition to the external economic constraints imposed on Serbia, a series of wars<sup>6</sup> in which Serbia fought were also particularly damaging and distracting. Thus, the benefits of autonomy for Serbia were countered by a number of disadvantages --this levelling process is reflected by the present development level of Serbia, which is closer to the national Yugoslav average (from 1945-1991).

The relative prosperity of autonomous Serbia also extended to the Serbs of the Austrian-dominated region of Vojvodina. This prosperity was, however, to take a different form. Following the Turkish conquest of Serbia, Austria used various financial incentives to encourage Serb migration to the border area in order to form a military buffer zone between the two empires (Singleton and Carter 1982). These frontier migrants availed themselves of the fertile land characteristic of the region, and enjoyed a certain degree of political autonomy awarded to them by Austria. Eventually, the relatively autonomous Serbs in this region were able to prosper under these conditions despite the instability of the border, and they were among the first Yugoslavs to develop a relatively wealthy middle class (Kerner 1949). The rise of this prosperous class and the adoption of more effective cultivation techniques clearly had an influence on the current high level of development in Vojvodina among the regions of Yugoslavia.

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<sup>6</sup> Examples during this period were: the Serbo-Turk Wars (1876, 1878), the Serbo-Bulgarian War (1885), and the Balkan Wars (1912-1913). According to Hamilton (1968: 17) "Serbia suffered most since her resources were small and her independence was threatened. In contrast, Slovenia and west Croatia long enjoyed peaceful conditions which facilitated the operation of regular production activities and the accumulation of capital for local reinvestment."

Freedom from outside rule was an important factor in the development of not only Serbia and Vojvodina, but also other regions of Yugoslavia. Of all the regions of present-day Yugoslavia, Montenegro in particular remained largely independent, for the most part, of imperial rule (Singleton and Carter 1982). This independence from outside rule was to result in a pattern of development distinguished from the experience of Serbia. Montenegro, a mountainous area populated by Orthodox Montenegrins of Serb origin, remained largely united and independent of the Turks (Kerner 1949). The economy of Montenegro was based primarily on pastoral agriculture, allowing the Montenegrins to remain relatively mobile in order to defend themselves against Turkish invasions. On the one hand, the Montenegrins received a significant amount of aid and numerous volunteers from other Yugoslavs which helped fuel their economy. On the other, a long history of instability, in addition to inadequate development of an infrastructural and industrial base, limited the development of Montenegro in later years.

On the whole, Serbia, Vojvodina, and Montenegro benefitted from periods of autonomy from foreign rule, while Slovenia and Croatia prospered due to particular patterns of foreign investment in industry and infrastructure. Meanwhile, Bosnia and Hercegovina and particularly Macedonia were severely disadvantaged. Macedonia remained under Turkish rule for the longest period of time among the Yugoslav regions. The pattern of Macedonian spatial development mirrored that of Croatia: port areas along the major rivers were developed, while the hinterland was left to stagnate under a feudal land tenure system (Lampe and Jackson 1982). However, Macedonia was also considered by the Turks to be the strategic land-bridge to the West, prompting a particularly harsh form of rule in the area (Auty 1965). Current Macedonian development is among the lowest of the regions of Yugoslavia, and can clearly be traced in part to pre-war historical development.

Bosnia and Hercegovina also experienced an exploitative feudal relationship under Turkish rule for a longer period of time than Serbia. A significant percentage of the population of Bosnia and Hercegovina was Islamicized and de-nationalized (which isolated them from other Yugoslavs), while Orthodox Serbs remained to the east and Catholic Croats to the southwest of Bosnia and Hercegovina, in addition to the population of Serbs along the military zone between Bosnia and Croatia. Due to land shortages in all regions in later years, there were major emigrations of freedom-seeking peasants from Bosnia and Hercegovina to the liberated regions of Serbia and Montenegro. While this exodus was positive in alleviating rural/agricultural overpopulation, much of Bosnia was deskilled of some of its most able people. Bosnia was also damaged during struggles against the Turks, yet never achieved the autonomy experienced by Serbia. Bosnia was later dominated immediately prior to the First World War by the Austrians. While Austrian rule of Bosnia was considered administratively beneficial,<sup>7</sup> imperial rule tended to divide the Muslims from the rest of the Yugoslavs (Vucinich 1969). For many years, Bosnia and Hercegovina was isolated commercially and physically from Serbia and other Yugoslav areas, contributing to the divisions that would later plague unified Yugoslavia.

This spatial isolation was certainly important to the regional development of Bosnia and Hercegovina. However, the primary distinguishing factor between this area and other Yugoslav regions was religion. There were significant differences in the degree and speed of development between Islamic and Christian Yugoslavs: those in the southern Islamicized regions tended to resist innovation and industrialization (Hamilton 1968), which limited the ability of these Muslims to integrate and develop.

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<sup>7</sup> According to Ostovic (1952: 19) "Austria introduced a modern system of administration and a European system of justice to Bosnia, placing it some forty years ahead of Serbia, in which Turkish traditions prevailed in spite of its independence."

However, while Bosnia and Hercegovina stagnated relative to Serbia, Croatia, Slovenia, and Vojvodina, its development was more favourable than that of Macedonia or Kosovo. Bosnia benefitted more than Macedonia from industrialization based on the exploitation of its plentiful resources (Lampe and Jackson 1982). Later it also benefited from broader development of both city and hinterland under Austrian administration, which promoting infrastructural links throughout the region (Singleton and Carter 1982). This contributed to Bosnia's higher level of development relative to the other southern less-developed regions.

Special reference must be made to the region of Kosovo, which has experienced ethnic isolation similar to that of Bosnia and Hercegovina, while being burdened by economic problems similar to those of Macedonia. Prior to Turkish domination, Kosovo was considered a part of Serbia, which held this territory for the longest period of time. However, during Turkish rule, a significant Islamic Albanian population migrated to the area, differentiating the region from the rest of Serbia. Kosovo also remained for a lengthy time under Turkish rule with Macedonia. Problems and conflicts arose associated with inadequate development under the Turks, and isolation from Serbia by virtue of its Islamic, predominantly rural-oriented Albanian majority.

In conclusion, Slovenia and Croatia benefitted from Austrian work traditions, relative peace, and greater infrastructural and industrial development. Serbia benefitted from ethnic unity, a growing self-consciousness, and earlier independence from colonial rule, but was plagued by wars, an inadequate industry and infrastructure, and inefficient administrative and business practices inherited from the Turks. The southern regions were not only under the rule of the Turks for the longest period of time, but also were divided by religious



and ethnic loyalties which tended to contribute to prolonged war. All of these factors contributed to protracted variations in development levels among regions and economic sectors, and between rural and urban areas. (See Table 2.1 and 2.2 and Figure 2.3). Table 2.1 and Figure 2.4 indicate that relative to size, the northern regions had a far more extensive railroad network than those of the South. By 1910, Croatia and Slovenia had 82 railway lines in service per 100,000 people, in contrast to 31 and 18 lines per 100,000 in Serbia and Macedonia, respectively. Even Bosnia and Hercegovina surpassed Serbia in railway lines (74 per 100,000 population), reflecting the Austrian emphasis on infrastructural development from 1901-1918. Table 2.2 demonstrates the disparities in industrial development: Slovenia composed 10 percent of the population of Yugoslavia, and earned nearly 18 percent of monetary value in industry. By contrast, Macedonia's

Table 2.1 Railway Lines in Service, 1910

	<u>Km. per 100,000 pop.</u>
Slovenia	82
Croatia	82
Serbia	31
Bosnia-Hercegovina	74
Macedonia	18

Modified from the original in Lampe and Jackson 1982: Table 9.7

Table 2.2 Distribution of Manufacturing Industries, 1918

	Plants		mil. dinars		Workers		Machinery	
	%	Number	%	Number	%	Number	%	Number
Slovenia	24.2	1,407	17.8	32,756	21.0	15.2		
Croatia	30.2	2,542	32.4	43,384	27.9	48.2		
Vojvodina	21.2	1,123	14.1	28,297	18.2	11.2		
Serbia	14.2	1,838	23.0	29,363	18.9	11.2		
Montenegro	0.5	16	0.2	168	0.1	0.1		
Bos. & Herc.	8.3	960	12.1	20,826	13.4	13.9		
Macedonia	1.4	30	0.4	694	0.4	0.2		
Yugoslavia	100	7,916	100	155,488	100	100		

Source: Mistic, D.1957: 270; Modified from the original in Bombelles 1968: 4, Table 1

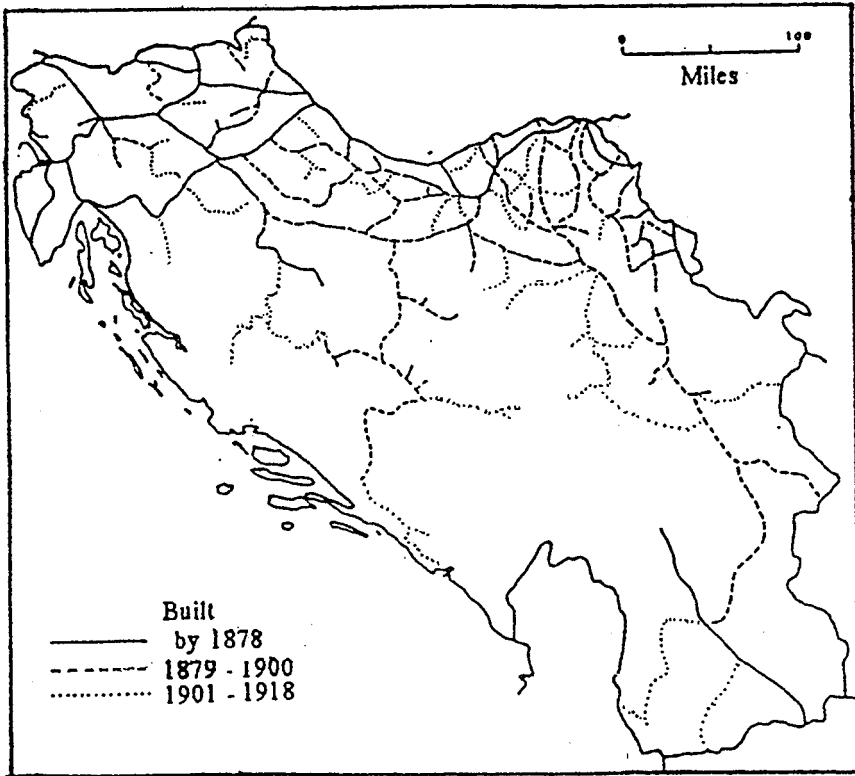


Figure 2.3 Development of the Railroad Network  
1846-1918

Modified from the original in Znanje 1961: 28a

population composed 6 percent of the Yugoslav total, while only producing 0.4 percent industrial value. With 23 percent of the population, Serbia produced 23 percent industrial value, reflecting its tendency to take the position at the median.

While Austrian and Turkish attempts to denationalize and divide the Yugoslavs were a force of disunity in the short-term, they ultimately served as a unifying force in the collective South Slavic interest of liberation and political autonomy that manifested itself by the end of the First World War (Singleton and Carter 1982). After the defeat of Austria in the First World War, the South Slavs were united in the Kingdom of Serbs, Croats and Slovenes, later to be called Yugoslavia. Unified Yugoslavia was, however, faced with deep economic, political, and social forces of divergence which had accumulated over centuries of division and differential development.

### **2.2.3 Regional Development of Unified Yugoslavia, 1918 - 1945**

The unification and integration of the regions of Yugoslavia was a complex and difficult task for the newly formed Yugoslav government. The differences in political orientation among the regions of Yugoslavia, based on variations in social and political development of the ethnic groups, contributed to difficulties in arriving at compromises among the different regions (Singleton and Carter 1982). Attempts at the economic integration of Yugoslavia were quite limited in the interwar years. This was due, in part, to disparities, divisions,

and variations that had developed among the various regions, particularly between the more-developed Croatia and Slovenia and the less-developed southern areas.<sup>8</sup>

The inter-war Yugoslav government adopted a number of policies favouring the development of industry. An industrial emphasis was seen as the solution to not only an overwhelming problem of agricultural overpopulation in many Yugoslav regions (Singleton and Carter 1982), but also to the lack of internal transport links between urban and rural areas and among regions, both contributing to under-development. According to popular belief, there was a need to develop an industrial labour force and efficient transportation to market areas, as most of the predominantly peasant population of Yugoslavia was too poor and isolated from the benefits of production and diffusion of technology to play a significant role in development (Hogg 1944).

However, most of the policies adopted by the Yugoslavs tended to disadvantage the rural populations (which ultimately compelled some to migrate to cities and form an industrial workforce). Many economic sectors were nationalized and protective tariffs were established for most industries, while the peasantry tended to be heavily taxed. The importance of this in regional terms lay in the fact that the industrial drive produced different effects on each region of Yugoslavia -- because these regions had developed different economic structures over time. Slovenia in particular had already developed a skilled and efficient industrial work force, while many of the other regions remained primarily agricultural. As the rural population grew in those agricultural regions, free peasants were squeezed into ever smaller landholdings, forming a surplus population

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<sup>8</sup> For example, "in [a] national and cultural complex Yugoslavia began her life under a conglomerate of laws -- ten different state or autonomous provincial legislations. [T]his mosaic needing unification rested upon legal assumptions which issued from profoundly different customs and ways of life. Thus the reforms demanded by one side provoked discontent on the other" (Hogg 1944: 9).

unversed in modern methods and lacking in adequate social infrastructure (Hogg 1944). Efforts by the Yugoslav government to rectify this situation (through the stimulation of migration by the rural poor to urban, industrial areas) alleviated overpopulation to some extent, but also deskilled the rural areas of valuable potential.

Peasants were already subjected to unfavourable terms of trade on the international market. Under the Yugoslav government, the unfavourable position of the peripheral peasantry and agricultural regions was only worsened by the establishment of a protectionist policy for Yugoslav manufactured goods (Beard and Radin 1929). Through this, finished goods sold domestically were highly priced and relatively inaccessible to the poor peasantry. The ultimate result was an agrarian structure unable to struggle above its difficulties: "the increase in non-agricultural employment barely kept pace with the growth of the working population. A persistently backward agriculture created a vicious circle which paralyzed the [regions of Yugoslavia], for an impoverished peasantry had nothing to invest and very little to spend. . . . [T]his made any expansion of trade, industry, building and services impossible" (Hamilton 1968: 10).

However, agricultural stagnation was not necessarily uniform across the agricultural regions of Yugoslavia. By the end of the First World War, the Serbian and Vojvodinan farmers had become more established and mechanized than their counterparts in other Yugoslav areas (having been free landholders for years), and were able to contribute to the prosperity of their regions. By contrast, in Slovenia and Croatia there was a need to integrate the newly-liberated serfs into an effective agricultural labour force, and a concomitant need for land reform in the interest of more efficient rural production. Reforms were also required for the peasantry of the underdeveloped South who had been severely disadvantaged under the harsh Turkish feudal system. In addition, while attempts

at land reform were made during the inter-war period, they tended to be unsuccessful in the face of increasing tensions among ethnic groups (Hamilton 1968) arising from perceived economic and political injustice.

The accumulated political, economic, and social divisions that awaited the interwar Yugoslav government's attention were monumental. There was a tremendous need to coordinate not only the industrial and agricultural sectors of Yugoslavia as a whole, but also the Yugoslav regions themselves. The government's efforts to develop the southern regions were significantly limited by the substantial political, economic, and social divisions among all the regions of Yugoslavia, which had accumulated over the centuries (Singleton and Carter 1982). This fragmentation contributed to the eventual collapse of Yugoslavia, as struggles among ethnic groups escalated, particularly between the Serbs and Croats.<sup>9</sup>

Although Serbia suffered great losses relative to the other regions of Yugoslavia during the First World War, the Serbs still managed to retain a dominant position (numerically and politically) in united Yugoslavia. The political center was focussed on a Serbian monarch in Belgrade, resulting in a skewed concentration of power in the hands of the Serbs who held disproportionately senior positions in many professions. This ultimately contributed to centrifugal forces in Yugoslavia, as the other ethnic groups reacted negatively to Serbian dominance (Singleton and Carter 1982). These political differences significantly divided the regions of Yugoslavia just as they would decades later in socialist Yugoslavia.

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<sup>9</sup> The Croat-Serb conflict was based in particular on clashes in the political arena. The administrative approach favoured by the centralized and essentially Serbian-dominated state of Yugoslavia was not favourably viewed by opposing factions, especially the Croats. Fears of Serbian dominance continued to be echoed in socialist Yugoslavia and tended to be countered by overbearing nationalist sentiment by the other ethnic groups of Yugoslavia. This was a primary force of divergence and ethnic conflict in Yugoslavia.

By the time of the Second World War, Yugoslavia became easy prey for the Axis powers, just as it was for Austria and Turkey centuries before (Auty 1965), especially because of the divisions among the ethnic groups of Yugoslavia (Singleton and Carter 1982). The Axis powers dominated Yugoslavia for only a few years, but they had a profound effect on both horizontal divisions as well as vertical differentiation of development. During the Second World War, Germany, Italy, Bulgaria, and the independent fascist state of Croatia split Yugoslavia into several sections and treated each region differentially while attempting (and succeeding) to provoke further dissent among the Yugoslav ethnic groups (Kerner 1949). This is important to contemporary ethnic tension in Yugoslavia; wartime divisions in loyalties among the Yugoslavs are often cited as central bases for conflict.<sup>10</sup>

By the end of the Second World War, Yugoslavia was characterized by a number of sharp disparities in development among its regions (See Table 2.3). In 1947, the average GDP per capita for the less-developed regions (Bosnia and Hercegovina, Montenegro, Macedonia, and Kosovo) was 70 percent of the average GDP per capita of the more-developed regions (Croatia, Slovenia, Serbia, and Vojvodina). Slovenia had over three times the GDP per capita of Kosovo, and Kosovo had twice the percentage of agricultural population of Slovenia. The less-developed regions had an average of 13 percent of their economy related to industry, in contrast to the 20 percent in the more-developed regions. The ranking of each republic and province according to development level clearly reflected the regional historical experience prior to the First World War. The interwar Yugoslav strategy seemed to have had little effect on Yugoslav regional development beyond perpetuating and aggravating existing disparities and divisions.

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<sup>10</sup> The Serbs in particular have used Croatian (Ustashi) wartime atrocities to justify hard-line actions during the civil war.

Table 2.3 General Indicators of Development, 1947

	Territory sq. km.	Pop. (1,000's)	GDP 1972 prices	GDP per capita	% Share Industry	Employed per 1,000 1952	% Share agricult. pop. 1948
<b>Less-developed</b>							
Regions	101,541	4,749	12,685	2,671	13	81	73
Montenegro	13,812	371	1,203	3,243	5	72	72
Bos. & Herc.	51,129	2,526	7,505	2,968	13	96	72
Macedonia	25,713	1,133	2,756	2,432	15	70	71
Kosovo	13,812	371	1,221	1,705	5	48	81
<b>More-developed</b>							
Regions	154,263	10,930	41,560	3,802	20	114	65
Slovenia	20,251	1,428	8,056	5,648	28	178	44
Croatia	56,538	3,758	13,568	3,610	22	122	62
Vojvodina	21,506	1,650	5,686	3,446	19	99	68
Serbia proper	55,968	4,094	14,240	3,478	14	90	72
<b>TOTAL -Yugoslavia</b>							
	255,804	156,789	54,245	3,460	18	103	67

Sources: Savezni zavod za statisticku, SFRJ. Statisticki Godisnjak SFRJ 1988. 1989: 409, 412; Statisticki Godisnjak SFRJ 1945-1985. 1986: 198, 204; Statisticki Godisnjak SFRJ 1945-1963. 1965: 49

## 2.3 Conclusion

Historically, the ethnic groups in Yugoslavia's various regions attempted to unify and integrate in the interest of overall economic and political strength. But physical geographic conditions and relative location contributed to the differentiation and division of the people and regions of Yugoslavia. Simultaneously, many external forces divided and attempted to divide the Yugoslavs, and the policies of the inter-war unified Yugoslav government did little to address the problems that arose effectively.



Firstly, physical geography influenced the initial division of the Yugoslavs into diverse ethnic groups. Physical geography continued to play a role, as less accessible interior regions in both northern and southern Yugoslavia tended to encounter the greatest problems in developing. Secondly, Austria and Turkey split the Yugoslavs into two poles, resulting in higher development in regions dominated by the more progressive Austria, and stagnation in regions dominated by the Turks. Croatia and Slovenia remained under Austrian control, yet benefitted from industrial and infrastructural development. Vojvodina benefitted from relative autonomy and fertile agricultural conditions. Meanwhile, Serbia escaped foreign domination and was able to express local particularities and develop domestic resources, while it was simultaneously plagued by debilitating war and external pressures (such as unfavourable terms of trade with Austria). Montenegro was mountainous and struggled continuously against the Turks, thereby limiting economic development. Macedonia was kept in the clutches of the Turks while other regions were stimulated with development. Bosnia and Hercegovina benefitted from the rule of the Austrians for a short period. However, both Bosnia and Hercegovina and Kosovo were populated by Muslims who were, in this case, more resistant to the change introduced by industrialization. Finally, when the Yugoslavs were united following the First World War, the government pursued policies that favoured manufacturing, thus benefitting regions such as Slovenia and Croatia, which had already developed their industrial sector to a greater degree.

By the end of the Second World War, the divisions and disparities in Yugoslavia had become an integral part of the people and of the lands in which they lived. Such differences formed a key part of the consciousness of the Yugoslav peoples; the physical manifestations of these differences have reinforced and influenced the perspectives and experiences of the people of each Yugoslav region. Thus, the poverty of the people in one

region has a recursive, reinforcing relationship with lower education, low labour productivity, and traditional ways of thinking that blocked industrial development and the diffusion of technology.

Following the Second World War, power was assumed by Tito's Communist partisans; it was left to them to attempt to unite and integrate the regions and peoples of Yugoslavia and rebuild the decimated country. The imperial frameworks of development of the powers which had occupied the regions of Yugoslavia had been based on military and feudal institutions rather than on capitalist or mercantilist foundations: thus, many of the regions of Yugoslavia were not able to develop a substantial urban proletariat between the wars. At the time of Communist takeover, society was still primarily based on agriculture in many of the Yugoslav regions, particularly to the south. This is far from the ideal conditions for revolution outlined by traditional Marxist thought.

This explanation of the historical and geographical conditions specific to Yugoslavia has been undertaken in order especially to underscore the diversity that initially confronted the Communists -- a diversity that existed to varying degrees in each of the socialist countries of Eastern Europe. However, neither were these distinct experiences among the regions addressed effectively by the development strategies adopted by the Communists. The command model, and even some aspects of the market socialist model implemented in later years, was standardized according to a normative ideal that did not reflect divergent regional realities. The assumptions the Communists relied upon (i.e. the need for uniform industrialization) may have, in part, led to the eventual failure of the command system. Further assumptions of market socialist reformers (i.e. the need for a strong role of an unregulated market) and lack of regard for the differentiation of places and peoples would also prove to be disastrous for Yugoslav regional development.

The Yugoslav experience illustrates clearly not only results under the command economy, but also the results of blanket reforms, whether in the form of a strengthened or dominant market, or increased decentralization. The following chapters of this thesis will examine the Yugoslav development strategy in practice, and the results which followed, in terms of regional development.

## **CHAPTER 3. YUGOSLAV REGIONAL DEVELOPMENT UNDER THE COMMAND STRATEGY**

### **3.1 The Command Strategy and Diversity and Disparity in Yugoslavia**

The previous chapter illustrated the range and depth of development experience which the Communists faced in Yugoslavia: it is clear that the Yugoslav Communists inherited a country exceedingly diverse in a number of factors such as physical geography, nationality, religion, language, political and economic orientations, and development experience. Thus, the ensuing years of development under the socialist models of command economy and market socialism would not be based on a uniform plane or a clear slate: Yugoslavia was torn by persistent divisions and disparities which were destined to limit the ability of the government to promote coordinated and balanced growth of the country as a whole. Chapter 2 provided the context for the critique of Yugoslav regional development under socialism which will be outlined in Chapters 3 and 4. These two chapters will make it clear that the socialist government failed to construct and implement a model of regional development that was effectively conducive to coordination and balance of sectors and regions with different needs and capabilities.

#### **3.1.1 Yugoslav Regional Development Strategy under the Command Economy**

The subject of this chapter is the degree of success Yugoslavia achieved under the command economy in terms of fostering balanced, coordinated development, given the social and economic complexity of the country. To some extent the central authorities tried to balance inherited regional disparities. Regional policy in both rhetoric and practice was definitely coloured by overall desires for closing the gap between the more-developed Northwest and the less-developed Southeast, an objective reflected in the Constitution and

in many documents and speeches (Singleton and Carter 1982). This objective was supposed to have been carried through by industrial investment in less-developed republics and the province of Kosovo. The inter-republican disparities in development tended to receive the greatest attention: the Yugoslav government was inclined (through the ideology of its decision-makers) to favour more urban/industrial communes over agrarian areas as a matter of course. By contrast, no industrial - agricultural division was perceived to exist among the republics: all were capable of heavy industrial development, particularly the less-developed republics and province of Kosovo, in which rich natural resources were located.

The newly-founded Communist state immediately adopted a rigid Stalinistic command model and launched into an ambitious Five-year Plan. It was hoped that regional discrepancies would be balanced as an indirect result or side-effect of rapid urban/industrial growth. But despite Communist measures to recognize the need to develop Bosnia and Hercegovina, Kosovo, Montenegro, and Macedonia, this industrial economic policy favoured regions that already had a head-start on the road to industrialization and urbanization. Slovenia and parts of Croatia and Serbia were the only areas well-suited for industrial development, while Muslim regions were particularly disadvantaged, because they lacked the capitalist relations (including an industrial proletariat and a tradition of entrepreneurship), infrastructure, and industry, all of which had developed to a greater extent in the former republics. At the local level, communes which were already more accessible, urbanized, and industrialized were clearly at an advantage compared to communes dominated by a poor and traditional peasantry resistant to industrial development or social (cooperative or nationalized) ownership arrangements.

The importance of the command period in establishing the process and pattern of regional development is based on the fact that while the period of command system in Yugoslavia

was relatively short (1948-1952) and was succeeded by a much longer period of market socialist reformism, many of the structures and policies of the state retained basic characteristics of the command model and Soviet practice (i.e. a strong centralized decision-making apparatus, central control of prices and allocation) during the latter reformist period. Yugoslav policy-makers operated with a number of assumptions based on Soviet development thought, especially those associated with the perceived need for rapid economic growth through industrial specialization (especially in heavy industrial activity). Many subsequent reforms were of surface value -- command system methods of pricing, prioritization of investment redistribution, and administration tended to persist, along with a number of regional patterns associated with the traditional Communist bias toward the urban/industrial sector.

In Yugoslavia, as in other Eastern European Communist countries which implemented the command model, these regional patterns generally were reflected in a widening of disparities between, on the one hand, rural/agricultural and urban/industrial sectors, and on the other, light and heavy industrial sectors<sup>1</sup> (finished goods/consumer goods production vs. raw materials production/extraction of natural resources) (Hamilton 1968). These sectoral patterns eventually became translated into regional terms, according to spatial specializations. Thus, under the command system, Slovenian, Croatian, and Serbian industry prospered from Yugoslav government stimulation of industry (under conditions which already favoured further industrialization), while Montenegro, Bosnia and Hercegovina, Macedonia, and Kosovo faltered in their first steps of transformation to extensive industrialization and urbanization. In addition, the form of industrialization

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<sup>1</sup>For the purposes of this thesis, "heavy" industry includes electricity production, coal industry, oil industry, iron and steel, non-ferrous and ferrous metallurgy, metal industries, shipbuilding, chemical industries, and building materials industries. "Light" industry includes wood industry, paper, textiles, rubber, food industries, printing, film industry, industrial research and development, and the tobacco industry.

manifested in the latter less-developed regions emphasized less-profitable heavy industry; Croatian, Serbian, and particularly Slovenian light industry, which had been present prior to the Second World War, prospered when Yugoslav development began to favour this sector in later years (Plestina 1987), especially for purposes of trade with the West.<sup>2</sup> This sectorally-differentiated pattern was similarly duplicated at the local level -- major urban/industrial areas (Belgrade, Zagreb, Ljubljana, Titograd, etc.) contrasted sharply with their underdeveloped hinterlands in which agriculture (a sector severely disadvantaged by command policy) was located. In cases in which heavy industrial projects were located in less-developed areas, investment levels inadequate to ameliorate the under-development of these regions were ultimately incapable of transcending local development weaknesses (e.g. a large unskilled labour force, poor roads in mountainous areas).<sup>3</sup>

### **3.1.2 The Role of Non-economic Factors during the Command Period**

The sectoral biases on the part of the central government were particularly important in Yugoslavia during the command system period, as I intend to explain more thoroughly later

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<sup>2</sup> The widening of disparities between the light and heavy industrial sectors became more apparent following the reforms, as the central bias against light industry (such as textiles) imposed constraints on the development of this sector even in more-developed areas (Bombelles 1968). When Yugoslavia found itself in need of hard currency and foreign aid, the state began emphasizing light industrial production for export. There was, of course, no light industrial tradition or facilities in less-developed areas. Light industry had already developed to a greater degree in the more-developed republics, giving these areas a headstart in development of this sector. A similar situation existed in terms of the service sector -- in particular, tourism, which, when released from government control through privatization, and yet funded simultaneously, resulted in the higher development of regions which specialized in this sector (especially Croatia). Services were also mainly located in urban areas (Markovic 1988). I will discuss this in greater detail in Chapter 4.

<sup>3</sup> Throughout this thesis, I have emphasized a dialectic of urban/industrial and rural/agricultural areas. I would like to note, however, that I see this not as a polarized juxtaposition of city and hinterland, core and periphery, but as a continuum of development differences, according to many indicators of development -- not simply quantifiable measurements such as GDP or income per capita, but development in many sectors and aspects of human life. It is difficult to refer to a region as "more-developed" or "less-developed" without qualification.

in this chapter. However, it would, of course, be a gross over-simplification to claim that inter-regional discrepancies in Yugoslavia solely resulted from the differences in sectoral emphasis of government policies (particularly given the points raised in Chapter 2). While government policies certainly had a significant influence on regional patterns, there were a number of other elements involved which acted simultaneously on regional development. These include the role of horizontal activity in both command and reformed systems, such as market forces (which did exist to some extent in the command system), cultural factors, and other non-state inter-relationships among enterprises, regions, groups of people, and individuals. For example, the accumulated social divisions and differences among the regional groups of Yugoslavia may have limited free and equal competition in the market (and the efficiencies which are purported to arise from competitive market relations).<sup>4</sup>

A central criticism that this thesis levels at socialist models of development relates to their inflexibility with regard to not only economic difference, but also social factors. However, it is possible to say that, to some degree, the Yugoslav socialist government did attempt to address its country's ethnic diversity. Following the Soviet model, the Communist state of Yugoslavia immediately declared an internal political division of relatively autonomous regions in order to favour equal development and representation of the people of each of these areas. The leaders of socialist Yugoslavia divided the country into eight federal administrative units according to ethnic or religious tradition -- the republics of Bosnia and Hercegovina, Croatia, Macedonia, Montenegro, Serbia, and Slovenia, and the "autonomous" provinces of Vojvodina and Kosovo.<sup>5</sup> These federal units were subdivided

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<sup>4</sup>Given the circular and cumulative nature of the market, it may have actually had a contributing role in the eventual widening of disparities in Yugoslavia.

<sup>5</sup>It is important to note that while the autonomous provinces of Kosovo (Albanian majority) and Vojvodina (large Hungarian population) are formally under the jurisdiction of Serbia, throughout this thesis I will refer to them as separate units. In practice, Serbia had little control over their development for most of the socialist period. The republics and provinces of Yugoslavia were designated according to regions of ethnic majority. However, some of the communes within these larger units had significant ethnic minorities



into communes, or counties (opstina) which were created around functional city-hinterland networks rather than pockets of ethnic groups.<sup>6</sup>

The Communists believed that through the equal representation of ethnic regions in the political system (i.e. by designation of ethnic regions), each ethnic majority could voice their preferences and needs, thereby preventing inter-regional or inter-ethnic conflicts arising from the social, political, or economic dominance of a particular ethnic group (especially the Serbs, who were numerically stronger) (Devetak 1988). The Communists of Yugoslavia were certainly influenced by the traditional rhetorical socialist theme of balanced development and social equity, for the central authorities also expressed their commitment to support balanced national growth through the rapid development of less-developed areas which were designated by the central government. Redistribution and investment in the regions recognized as less-developed was intended to promote political and social harmony through the reduction of inequalities among national groups (Devetak 1988).

It is important to note that the attempt on the part of the Communists to recognize ethnic diversity was eclipsed by contradictions associated with practical state policies. Firstly, the formal regional division of Yugoslavia was an artificial construct which did not necessarily coincide with the pattern of cultural and economic interaction (e.g. interaction of Serbs

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which included the following (in 1948): a large Serbian minority (14.5%) in Croatia along the Bosnian border; Albanians (17.1%) in Macedonia along the border with Kosovo. Serbia was relatively homogeneous (92% Serb), as was Slovenia (97% Slovene). Bosnia & Hercegovina and the two provinces each did not have a clear ethnic majority: Bosnia was composed of 23.9% Croats, 30.7% "ethnic" Muslims and 44.3% Serbs). Vojvodina was composed of 8% Croats, 50.6% Serbs, and 25.8% Hungarians; and Kosovo included 23.6% Serbs and 68.5% Albanians (Savezni zavod za statistiku SFRJ. Statistički Godisnjak 1918-1985: 45-49). Each republic and province also included small minorities such as Gypsies, Bulgarians, Romanians, Czechoslovakians, Ruthenes, among others. I intend to criticize in subsequent sections the formal (administrative) boundaries which were imposed at the republican level.

<sup>6</sup> Some communes were, however, more rural than others. The Sarajevo region, for example, was much more commercial, urban, and industrial than, for example, communes located around small towns in the mountainous interior of Bosnia and Hercegovina.

across republican borders) -- a fact that in my interpretation, would eventually cause numerous problems for Yugoslavia, as these more functional relationships would eventually conflict with the sweeping administrative departmentalization formalized by the Communist government. For example, in delineating the administrative boundaries of the communes, the government often cut through ethnic groups which were socially and often economically inter-connected.

Secondly, while rhetorically declaring the equality of nations in the interest of "brotherhood and unity", the state simultaneously suppressed the public expression of nationalist (and to some degree, religious) sentiment. This suppression included political purges of officials rumoured to be nationalist, suppression of religious and ethnic periodicals, dissemination of "pan-Yugoslav" and anti-religious propaganda, and most importantly, the denial of individuals of each ethnic group means to express and resolve their grievances through a democratic political system. As Rusinow (1985: 134) charges: "the . . . symbolic and formal arrangements and a considerable degree of genuine cultural autonomy and recognition of cultural differences (for example in folklore and languages) were counterbalanced by a highly centralized and carefully multinational one-party dictatorship, police apparatus, and centrally planned 'command' economy." Thus, in Yugoslav practice, the suppression of ethnicity seemed to be a function of the centralized command system itself. The muffling of ethnicity did meet with some success during the command period (Rusinow 1985), but eventually extreme nationalism was exacerbated by an unfortunate combination of inherited ethnic grievances and new government policies. Ethnic conflicts became particularly important following the implementation of market reforms and thus, will be examined in greater detail in the following chapter. For the time being, it should be noted that the Yugoslav strategy imposed a command economy and a particular administrative system which often did not coincide with economic or social

realities. A socialist strategy of development which was unable to address social and economic diversity was fated to eventually come to terms with it -- in the Yugoslav case, quite violently.

In later years, social differences became particularly significant as the diverse segments and ethnic groups of Yugoslavia found it increasingly difficult to cooperate and integrate. The market also grew in importance following economic reforms in which enterprises and regions were increasingly able to interact horizontally. But for the period under the command system, all regions and enterprises were more or less forced to follow the directives of the central authorities. While the following parts of Chapter 3 will make some reference to social and market factors in this regard, Chapter 4 will be devoted to a more detailed examination of these influences. For the time being, considering the strictly centralized nature of the early Yugoslav socialist model, this chapter should be regarded as an introduction to my arguments concerning the early foundations of future problems for the Yugoslav model, which can be traced specifically to the development strategy of the central government of Yugoslavia during the command period. The following chapter will also provide much of the statistical evidence, as it is more accurate to assess the effects of different policies over a longer period of time and as they changed with reforms, rather than in a relatively short five year period.<sup>7</sup>

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<sup>7</sup> Unfortunately, for the early years of socialist Yugoslavia, statistical data based on regions and sectors is extremely limited. For example, until 1969, Kosovo and Vojvodina were aggregated with Serbia proper as one unit. Information on smaller regional units is virtually non-existent. With regard to economic sectors, no data is available in distinguishing investment and GDP levels in light and heavy industry (much less by region).

### 3.2 The Command System and Yugoslav Regional Development

Pre-war Yugoslav regional development gave the Communists an imperfect, unbalanced regional pattern which the command system -- with its accompanying political and economic structures and policies -- was intended to correct. Variabilities among the Yugoslav regions and peoples were acknowledged by the Communists more in rhetoric (and possibly in spirit), than in practice. Although the political system theoretically placed all republics and provinces on even ground (as well as the communes, at the local level), economic policy established by the central government was not so even-handed, regardless of any beneficent intent.

It has been argued that the lack of even-handedness and balance in socialist regional development in Yugoslavia is attributable to the fact that despite the centralization of the Yugoslav system, and above and beyond social and market considerations, there were many external influences on the vertical and horizontal spatial orientations (i.e. central policy or enterprise and regional inter-relationships, respectively) in Yugoslavia. These included changes in world market priorities; external political alliances, power shifts, and pressures; and general Yugoslav relations with these external forces (Singleton 1976). The most obvious example of the influence of external pressures (and the most important to the command system period and its subsequent reform) is the split that arose between Yugoslavia and the socialist bloc: in 1948, Cominform declared a boycott on Yugoslavia, accusing its leaders of practicing a corrupted form of socialism. This put substantial pressure on the Yugoslav government. Yugoslavia lost not only the economic and defensive aid of the Eastern bloc but also to a certain extent, confidence in the theoretical foundations of reformist Yugoslav development policy. After reacting to this loss with a brief period in which attempts were made to appease the Soviets (through rapid forced collectivization of Yugoslav agriculture), the Yugoslav authorities found themselves

separating further from the Soviets in terms of the theory and, eventually, of the practice of socialism (Milenkovitch 1971). This signaled the real beginning of reformism in Yugoslavia.

However, while considerations for reform were gestating, from 1948-1952 Yugoslav policy-makers continued to emphasize the objectives of the central plan and the macro-objectives of the state (through the original command system) as outlined prior to the ostracism of Yugoslavia from Cominform. The administrative structure of Yugoslavia also retained its centralized form during this period (Prybyla 1987). As with the traditional command model, directives from the state were outlined, implemented and enforced within the framework of the plan. The market and decision-making activities of the lower levels of the hierarchy were strictly limited. As I explained in Chapter 1, centralization was thought to enable the state to direct the productive efforts of enterprises and administrative areas according to its perception of the needs of the country, rather than leaving development to the forces of an unregulated market in which local interests would prevail (Milenkovitch 1971). The following sections will explain the structure of the Yugoslav system during the command period, and the problems which were associated with it in terms of regional development.

In order to understand the effects of the command model on regional development in Yugoslavia, it is important to first outline the actual form the model took -- the extent to which the central government exerted its control and influenced the direction of regional growth (based on existing conditions). Thus, the following sections will outline Yugoslavia's model and its effects in regional terms, following a similar format to Chapter 1 (which analyzed the command model in general). The role of the plan and centralization

will next be stressed, and particularly how the Yugoslav authorities attempted to achieve their intentions with regard to the development of each region.

### **3.2.1 Inefficiency of the Plan**

In the traditional command model of Yugoslavia, the plan was strictly enforced at all levels of the politico-economic system and included the regulation of investment and prices, and the allocation of materials. Prices were planned and fixed in an effort to coordinate supply and demand (Bicanic 1973), and customs and duties were also controlled by the state to protect domestic activities. Industry, transport, banking, and trade were all nationalized in the expectation that they could be effectively controlled by the state. Directly-controlled regulation and allocation of resources was accomplished through a system of ministries and planning organs under the jurisdiction of a central planning commission (located in Belgrade) which set its goals according to state (read Party) objectives. Republican and provincial planning offices responsible to the Federal Planning Commission regulated local projects (Singleton and Carter 1982). Enterprises were required to fulfill quotas which were formulated by the Federal and Republic Planning Commissions (theoretically according to the principle of capability and need). Enterprise profits were utilized by the federal government (through taxation of the social sector) to allocate investments at the federal, republican, and commune levels. Thus, the state objective of industrialization could in theory be most efficiently attained by way of a controlling central plan formulated and enforced by the central state.

The Yugoslav rationale for the plan, as in other Communist countries, lay in its ability to distribute investment and production benefits according to the directives of the state. Rather

than being a plan devised by the lower levels of the hierarchy, where localistic, short-term, and/or private-profit interests might dominate, the central plan could direct the economy according to long-term macro-economic goals. Ideally, disparities could be eliminated or reduced through investment in more needy areas (such as Kosovo, Macedonia, Montenegro, and Bosnia and Hercegovina) or more locally in less-developed communes. Growth in the more backward southern regions, as well as in underdeveloped areas internal to the various republics, could be effectively and directly stimulated by measures such as investment provision and raw materials allocation.

In effect, the market's ability to coordinate supply and demand through economic criteria (e.g. profitability) was strictly controlled according to the central political and administrative interests of the Party (Pejovich 1966). This limited the coordinating ability of the planning commissions, as these plans were often imposed with imperfect information concerning the capabilities and needs of the various sub-national units. In reality, the state imposed its (mis)interpretation of the needs of each republic, province, and commune. This interpretation (coloured by Party ideology) dictated the development of tightly controlled raw materials industries in regions provided with compatible patterns of investment and resources. Such industrial production, including ferrous and non-ferrous metals, electrical energy, coal, chemicals, and metal-working, received the overwhelming majority (70%) of investment (Bombelles 1968: 26). Heavy industrial development may not have been appropriate for all regions, however, as I intend to explain later in this chapter.

The central point of this section on the command system is that the plan, which outlined the production goals of the enterprises as well as their funds and resources, was constructed, implemented, and enforced by the center, allowing little freedom for these units to pursue a road to development either in their own interests or according to divergent regional realities,

such as infrastructure limitations or inadequate skilled labour forces. Thus, economic issues related to a plan-dominated economic system are very closely tied to political issues related to the concentration of power in the hands of a distant authority .

### **3.2.2 Inefficiency and Inequality of Centralization**

The structure of the command system in Yugoslavia (including the central plan) was for the most part modeled after the Soviet system. Federal and regional plans were thus primarily influenced by central interests; the decision-making structure was strictly top-down, characterized by vertical directives of the state enforced through planning organs and sectoral ministries, in addition to enforcement organizations such as the secret police (UDBA). The two main planning organs (the Federal Planning Commission and the Federal Control Commission) had ranks of economic ministries (e.g. ministry of mining, ministry of forestry) and republican and provincial commissions which had the power to implement central directives (Waterston 1962: 6-8). At the upper levels of the hierarchy, the planning commissions were presided over by central government administration, including the Presidium (assembly of the Communist Party), the Federal Assembly (parliament) , and the Council of Nationalities (which represented the republican and provincial governments). These administrative organs which directed the federal and regional planning commissions and controlled development policy were, of course, dominated by the Communist Party of Yugoslavia (Singleton 1976). In short, all these structures composed a very rigid hierarchical system dominated by a few central authorities.

As such, horizontal relations between enterprises were severely limited. Even the technical day-to-day decisions (in the interest of achieving plan targets) were made by state-appointed



enterprise heads, contributing to further central vertical influence and little free horizontal interaction in the socialized sector.<sup>8</sup> Republics and provinces were delegated little decision-making power at this time, even though Yugoslavia was declared a federation. The argument for this centralization of decision-making power in terms of regional development was simply that only through central allocation of resources and investment to the backward regions could the equalization of living conditions be achieved, regardless of the economic inefficiencies associated with the duplication of production. Far worse would be fragmentation and pursuit of narrow nationalistic interests which were expected to result with decentralization (Dubey 1975).

In short, a number of inefficiencies and inequalities seemed to result directly from this top-heavy model; many of these were primarily associated with bureaucratic administration. The bureaucracy became excessive and tended to hoard the benefits of production through the maintenance of high incomes and special privileges, while not contributing to sustained growth through the production of goods. This contributed to disparities between the bureaucracy and other social groups. In addition, much of the bureaucracy was located in major urban areas (most significantly, Belgrade), and disproportionate investment was concentrated in these areas as a result of skewed bureaucratic interests.

The regions and individual production units were able to provide little feedback to the planning commissions (Schrenk, et al 1979; Macesich 1964), resulting in the tendency for the state to make contradictory or unrealistic demands on the industries in each region based on inaccurate information of their capabilities. Thus, new projects were often underutilized and the agricultural and industrial sectors uncoordinated, most often to the detriment of the

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<sup>8</sup> The private sector in industry, at this time, was nearly nonexistent.

under-invested agricultural sector. For example, "funds were used to construct plans that often needlessly duplicated existing capacity"(Macesich 1964: 53). This was important in terms of regional development, as heavy industry was often duplicated in the less-developed regions in lieu of other potential activities that could have been exploited (this will be explored further in the next section, as the tendency for duplication grew following reforms). Regardless of capability and need of enterprise or region, in order to gain investment, each had to conform to the agenda of the Party.

More important to overall Yugoslav regional development was the tendency for enterprises given priority by the bureaucracy (mostly heavy industry) to receive the greatest investment and financial benefits. These enterprises correspondingly often attempted to gain as much political leverage as possible, compromising their economic efficiency in the pursuit of localized interests<sup>9</sup> (despite rhetorical claims that the command system transcended regional self-interest). Each region varied, however, in its ability to compete for political favours (Bicanic 1973; Waterston 1962; Macesich 1964). The sharpest difference in the competition levels of these regions arose from the central government's inherent bias towards industrial areas -- particularly those involved in heavy industrial production.

In effect, the top-heavy structure of the command economy gave the center the power to pursue development according to the priorities set out by the Communists. In turn, the imposition of the traditional model of command economy with accompanying traditional Communist priorities on the regions of Yugoslavia resulted in the furthering of a regional pattern typical of the socialist countries of Eastern Europe -- a more-developed

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<sup>9</sup> The reasons behind local efforts to gain central favour lay in the fact that enterprises were not likely to profit in the Yugoslav system from improved production for the collective interest of Yugoslavia (as surplus revenue was immediately taxed away by the state).

urban/industrial sector and lagging rural/agricultural sector, and an initially more-developed heavy industrial sector eventually giving way to light industry.<sup>10</sup> The following section will explain this pattern, and the processes behind it.

### **3.2.3 Inefficiency and Inequality of Specialization in the Command System**

As previously noted, the new Yugoslav state had a number of primary development objectives typical of socialist countries, which particularly included those geared towards equality: the establishment of a federation of equally represented nationalities, the rapid development of backward areas, and the general improvement of equal living standards for all Yugoslavs. Industrial specialization was seen as the primary process through which this equalization could be accomplished. According to this view, strategically located industries could stimulate the economies of less-developed areas, and relieve the pressure of agricultural overpopulation and stagnation through urbanization. This orientation toward industrial specialization was also motivated to a large degree by perceived external threats: the Yugoslavs were alienated during this era from not only the West, but also the Communist world (Singleton 1976). Objectives of national defence could be achieved through the mobilization of labour in industrial areas for the production of defensive goods. This specialization was not perceived as antithetical to the promotion of regional equality; however, national security arising from more efficient utilization of regional comparative advantages was seen as a strength for the country as a whole, as the Communist government would be freer to implement its "rational" regional policies (Hamilton 1968).

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<sup>10</sup> Yugoslavia differed significantly from the traditional Soviet style regional pattern by virtue of its interaction with the West. This interaction included Yugoslav trade with the Western world (as well as the Eastern bloc), the intake of foreign tourists into Yugoslavia, and the temporary migration of Yugoslav workers abroad. I will discuss this in more detail in Chapter 4, as it became more important in later reform years.

For the Yugoslavs, these regional policies reflected the fact that efficiency/specialization and equality/diversification were not seen as mutually exclusive goals -- the intent was to pursue both objectives, through policies of specialized investment in industry (in the interest of efficiency), and redistribution for equalization. As we shall see, however, the aggregate effects of these policies did not result in rational regional development, nor were the goals of industrialization and equalization equally weighted by the central government.

Goals of specialization tended to dominate during the command period, as they did in the interwar years (and as they would in later reform years). Each region was urged to take advantage of existing attributes and potentials for industrialization. This emphasis on industrial specialization, in addition to a sweeping policy of heavy industrial development was rather uniformly applied to the regions of Yugoslavia, despite the varied physical geographical setting and historical experience (including economic and social make-up) of each region. This resulted firstly in the immediate crippling of regions primarily agrarian in structure, and secondly, the lagging of regions where heavy industry was imposed; for a variety of reasons in the later reform years, the heavy industrial sector lacked the competitive position that light industry would come to enjoy on both the domestic and international markets (as I will explain later in this section).

The immediate shortcoming of Yugoslav regional development during the command period was the imbalance between agricultural and industrial sectors: the state pumped substantial investment into industry and adopted policies favourable to industrial development, while the agricultural sector suffered under such biased treatment, despite the fact that it employed the majority of the Yugoslav population (See Table 3.1). From 1948-1952, yearly investment in industry averaged four times that of investment in agriculture, while investment in the (less-politically-popular) trade and tourism sector fell from only 6 million

dinars in 1947 to 1 million dinars in 1952. An examination of this biased treatment of different sectors illustrates the extent to which the central government was able to enforce a particular development policy, and yet failed to anticipate, prevent, or control its adverse results or externalities.

Table 3.1 Allocation of Investment by Economic Sector, 1947-1952  
(as a percentage of total investment)

	1947	1948	1949	1950	1951	1952
Total Investment	100	100	100	100	100	100
Industry	34	32	38	42	46	61
Social investments	26	27	30	29	22	16
Transport	21	22	13	13	17	9
Agriculture	9	12	11	9	8	10
Trade and tourism	6	2	2	2	2	1
Forestry	2	3	2	1	1	0
Construction	1	2	3	3	3	2
Handicrafts	1	0	1	1	1	1

Sources: Jugoslovenski Pregled 1963: 299; Savezni zavod za statisticku, SFRJ. Statisticki Pregled 1945-1964. 1966: 282; Modified from the original in Hamilton 1968: 122

The sectoral bias of the central government toward industry had a variety of ramifications. Most significantly, through these government policies those regions which had a more substantial agricultural sector relative to other regions experienced losses in terms of overall development. Thus, while accumulated regional differentials in Yugoslav development levels between the more-developed North and less-developed South, in addition to pre-socialist urban/rural disparities internal to these regions, set the original pattern of regional development (e.g. through the persistence of social divisions, differences in provision of infrastructure), the ramifications of Communist government policy reflected the inability of the command economy to transcend these regional patterns. At the local level, the government did not simply perpetuate the wide divergence between urban and rural areas, but actually widened the gap through its bias against agriculture. Because many of the

internal areas of the less-developed republics and Kosovo were agricultural<sup>11</sup> and particularly resistant to collectivization (due to peasant traditionalism), anti-agricultural policy in effect counterbalanced state efforts to promote regional equality through allocations for industrial investment. During the command period, those regions favoured for agricultural production were crippled in their ability to exploit their area of specialization, as exceedingly harsh rural policies were put into effect in the interests of compelling peasants either to collectivize or to migrate to urban areas to form an industrial workforce.<sup>12</sup> Despite prevalent stagnation in most rural areas, the central government emphasized specialized urban development through the construction and stimulation of large concentrated factories in major cities (such as Belgrade, Maribor, Zagreb, and Ljubljana).

The previous paragraphs indicate the strength of the pro-industrial bias on the part of the Yugoslav Communists, and the consequent rewards (or punishments) that this entailed for agrarian regions. This was an intended, explicit bias that resulted in a generalized take-off of growth both in the urban/industrial sector and in major industrializing regions.

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<sup>11</sup> In 1948, the less-developed republics and Kosovo and Serbia had the greatest percentage of agricultural population -- Kosovo led with 80.9 percent, followed by Serbia (72.4%), Bosnia and Hercegovina (71.8%), Montenegro (71.6%), and Macedonia (70.6%). Even though Croatia and particularly Vojvodina are some of the most fertile areas for agriculture, urban/industrialization had progressed so that agricultural population was 62.4 and 68.1 percent, respectively. Slovenia's agricultural population was only 44.1 percent of Slovenia's total population.

<sup>12</sup> In order to illustrate some of the adverse effects of direct state policies, I will outline in greater detail the case of the agricultural sector during the command period. Rural policies of the government consisted of land reform which limited the size of private holdings, in concert with the forceful collectivization of agriculture as an appeasement to Cominform. A number of further restrictions were placed on private farmers, including high compulsory delivery quotas, low pricing of agricultural goods, and stringent credit policies (Macesich 1964). State objectives to socialize agriculture and increase agricultural production were ultimately incompatible; the disadvantaged farmers were not willing to increase production for "social" profit (Neal 1958). The inadequate incentives for peasants to increase production for collective interests, in concert with the imposition of low producer prices for agricultural products (in the interest of providing cheap foodstuffs for industrial workers), ultimately resulted in low overall agricultural production which further aggravated high levels of poverty in rural/agricultural regions (Bombelles 1968).

However, as I previously noted, while the bias of the Communists was in favour of "productive" heavy industry, this emphasis did not necessarily result in the greater development of existing heavy industrial regions relative to those which were more capable (through existing facilities, labour tradition) of shifting to light industry, trade, and services (Croatia, Slovenia, and Vojvodina). Thus, while the divergence between the agricultural and urban/industrial sectors was important in terms of intra-republican and intra-communal (city--hinterland) and inter-republican development, the eventual divergence in development between heavy and light industrial sectors was particularly important at the inter-republican level.

The central attempt to address inter-republican disparities was based on sectoral policies, rather than a coherent policy of regional development (Hamilton 1968; Plestina 1987). Under the assumption that growth in industrial production would eventually stimulate overall development, areas rich in natural resources but lacking existing industries were particularly prioritized by the Communist government for extractive activities (e.g. mining of metals, forestry). Many of these heavy industries were large-scale projects concentrated in the less-developed republics of Montenegro, Macedonia, and Bosnia and Hercegovina, and the province of Kosovo: regions with abundant natural resources that had remained relatively untouched under Turkish rule and were considered ideal for resource-based heavy industrial initiatives (Bombelles 1968). A policy of heavy industrial specialization was followed in practice in the less-developed republics and province of Kosovo with the expectancy that the regions would benefit by the development of new heavy industry in their predominantly agricultural areas (although for the most part, the preference for heavy industry was determined by ideology). According to this view, new heavy industrial development would stimulate employment, urbanization, and infrastructural development,

and lead to the eventual diffusion of technology and other benefits of production (Macesich 1964; Neal 1958).

Thus, as Connock (1982: 88) notes, capital-intensive heavy industry prevailed in the South: "the bias of industrial investment in the [S]outh [was] towards heavy industry (mining, ore processing, hydroelectric power, etc.) which by its nature tends to be more capital-intensive than the metal-working and consumer industries which play a greater role in the [N]orth." This capital-intensive heavy industrial orientation may not have been as beneficial to the less-developed regions of Yugoslavia as anticipated. For example, while such industry exploited the natural resources of the less-developed areas, it did not provide the jobs necessary to increase employment of the large unskilled labour force in the southern regions. Many large industrial projects were also located inefficiently in inaccessible regions lacking a manufacturing tradition, suitable infrastructure, or pool of skilled labour from which to draw (Bombelles 1968).

For a variety of reasons, heavy industrial investment by the state in the South did not make positive inroads in the reduction of regional disparities. Firstly, heavy industry was capital-intensive, and did not provide much-needed employment for the large population of unskilled labour (See Table 3.2). In 1952, 44 percent of Macedonian and 46 percent of Bosnian labour was unskilled, in contrast to Slovenia's 32 percent. Communist planners expected that out-migrations of unskilled labour from the less-developed areas to the more-developed North would eventually relieve population pressures. However, the migratory behavior of Albanians, Macedonians, and Muslim Bosnians was severely limited by ethnic differences -- a factor that was not well considered by Communist planners. (Moore 1980). Secondly, capital-intensive industry tended to require great investment in technology and infrastructure, which was sorely lacking in these regions. It is possible to see that many of



these industries were originally located according to political criteria (e.g. national defense) rather than economic ones (Bicanic 1973: 75), resulting in an inefficient division of production and labour, and ultimately hampering the progress of the heavy industrial region.

Table 3.2 Workers by Degree of Skill, 1952 (in 1,000s)

	Slovenia	Croatia	Serbia*	Montenegro	B &H	Macedonia
Total	176	287	349	18	181	58
Highly skilled	64	5	6	0.1	1	0.4
Skilled	62	98	124	6	53	16
Semi-skilled	55	73	81	4	45	16
Unskilled	56	111	139	8	82	26
% workforce unskilled	31.5	38.8	39.8	43.1	45.5	44.1

\*Serbia includes Serbia proper and the provinces of Vojvodina and Kosovo.

Source: Savezni zavod za statistiku SFRJ. Statisticki Godisnjak SFRJ 1954. 1955: 101-102

The favouring of certain industries for political reasons, even of good intentions, was not necessarily beneficial to the enterprises or the regions in which they were located; government subsidization stifled the competitive edge of heavy industry, something which would be required in later years when market reforms were implemented. Indeed, government favours in general tended to stifle more than stimulate development: the heavy industrial sector was strictly controlled by the center even during reforms. Heavy industrial projects were subject to strict plan controls, and tended to be increasingly inefficient and unprofitable: when government aid was readily accessible and the likelihood of closure was low, the enterprises had little incentive to stress efficiency.

Thirdly, other government policies contradicted the emphasis on heavy industrial investment. These included the imposition of a price ceiling on raw materials, and mandatory deliveries to domestic processing industries which limited the ability of heavy industries to gain hard currency. By contrast, such measures as high import tariffs were

eventually established to protect domestic light manufacturing, and light industry was eventually able to import raw materials. Perhaps these policies would not have been so detrimental if they were imposed for only the command period, but as investment levels in heavy industry progressively shrank, terms of trade unfavourable to heavy industry would continue to exist in the reform period.

In effect, heavy industry received a larger share of investment funds from the central government in the early years of socialism. It would be accurate to say that light industry was disadvantaged during the five years of the command system: "some light industries didn't receive enough for normal operating needs, let alone growth" (Bombelles 1968: 27). But even if the state-imposed constraints on northern light industrial development were taken into account, Slovenia and Croatia still benefitted from a substantially higher per capita investment in heavy industry. From 1947-1952, these two republics received 40.2 percent of industrial investment (Bombelles 1968: 34). "Large sums were allocated [to the less-developed republics and Kosovo], but even larger investments went to the more-developed republics, where a quicker return could be expected" (Singleton and Carter 1982: 220-221). The Communist government claimed that they sought to utilize existing advantages in the interests of overall rapid industrial growth of Yugoslavia. Those republics already favoured for industrialization -- possessing a more-developed social and physical infrastructure, a relatively skilled proletariat, more accessible market, and better industrial facilities and equipment -- benefitted from state industrial investments in processing industries (Singleton and Carter 1982; Hamilton 1968).

Moreover, the government bias for heavy industry was one of the few aspects of the Yugoslav command system that would change with future reforms: thus, the constraints on growth in the light industrial sector were relatively short-lived and inconsequential. Due to

the shift in commerce toward the Western world, in addition to changing national consumer demands toward more sophisticated industrial products, the focus of development turned in favour of manufacturing in the Northwest. The new threat of the Communist East was sufficient for the Yugoslav leaders to open further trade with the West, and those areas located near Western markets (Slovenia and Croatia) benefitted from trade and the diffusion of more efficient business practices and technology (Hamilton 1968; Neal 1958). The prosperity of the light industrial sector (and later, services and trade) relied on domestic and international market interaction, rather than government favours. And, although heavy industry was prioritized in the command system, the Yugoslav Communists were aware of the economic benefits associated with the utilization of existing light industrial facilities, especially in terms of trade on the world market.

The inaccessible and less-developed areas were already plagued by a number of shortcomings, including the lack of adequate transportation infrastructure, larger distance from principal markets, the lack of a local manufacturing tradition and accompanying skilled industrial workforce, and an inadequate supporting service sector (Bombelles 1968).<sup>13</sup> By the end of the command period, disparities between the less-developed South and more-developed North were still a fundamental reality of regional development in Yugoslavia, reflecting the negligence of government policies. "The lower efficiency of the utilization of capital, the lower per capita investment and the higher rate of natural increase of the population [in less-developed regions] resulted in the gap per capita between the developed and the less-developed areas actually widening" (Singleton and Carter 1982: 220-221) during the command period (See Tables 3.3 and 3.4). In 1953, with 9 percent

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<sup>13</sup> By contrast, both light and heavy industry in more-developed areas benefitted from these factors, in addition to domestic product protection through import tariffs, and domestic supply of cheap raw materials.

Table 3.3 Change in the Socio-economic Structure of the Population, 1948 - 1955  
(selected years)

	Yug.	Slov.	Croat.	Vojv.	Serb.	Mont.	B&H	Mace.	Kos.	
Share active in total population										
1948	49.1	52.9	51.6	49.4	54.2	39.9	42.9	47.5	35.3	
1953	46.3	48.0	47.7	45.4	52.4	36.4	42.5	40.8	33.2	
Share of urban pop.										
1953	21.7	22.0	24.3	29.5	21.2	14.2	15.0	26.1	14.6	
Workers per 1,000 pop.										
1953	126	216	150	124	111	113	111	99	52	
Workers in industry per 1000 working age pop.										
1955	69	148	82	56	55	37	65	42	34	
Per capita GDP (in current dinars)										
1953	4,061	6,549	4,691	4,042	3,928	3,033	3,473	2,756	1,873	
Birth rates	1955	26.9	21.0	22.1	21.0	22.4	31.1	37.3	36.2	43.6
Death rates	1955	11.4	9.9	10.5	10.8	10.0	9.0	13.6	13.2	18.2

Sources: Savezni zavod za statisticku SFRJ. Statisticki Godisnjak SFRJ 1989. 1990: 419, 450; and Statisticki Godisnjak SFRJ 1918-1988. 1989: 42-43, 105

Table 3.4 Percentage Share in General Indicators of Development, 1953

	Yug.	Slov.	Croat.	Vojv.	Serb.	Mont.	B&H	Mace.	Kos.
Population	100	8.8	23.2	10.0	26.3	2.5	16.7	7.7	4.8
GDP	100	14.3	26.7	10.0	25.4	1.8	14.4	5.2	2.2
GDP in industry	100	25.0	29.3	8.3	19.2	0.7	11.9	3.6	1.9
GDP in agriculture	100	7.3	23.7	15.1	29.5	1.7	13.5	6.1	3.1
Total investments	100	16.0	20.6	15.1	24.5	5.1	20.1	8.7	3.1
Fixed assets, industry	100	22.9	28.5	8.3	22.1	1.1	12.3	2.9	1.9
Active population	100	9.0	23.8	9.9	29.8	1.9	15.4	6.8	3.4
Agricultural pop.	100	5.9	21.4	10.4	29.0	2.5	17.2	7.9	5.7
Unemployed (1955)	100	10.8	28.8	10.2	21.9	1.4	8.9	14.3	3.8
Pop. supported by government	100	7.7	22.1	10.1	23.5	2.9	18.5	8.8	6.2
Territory	100	7.9	22.1	8.4	21.9	5.4	20.0	10.1	4.2
Train stations 1959	100	13.3	28.2	14.4	21.2	1.2	14.4	5.1	2.3
Roads 1955	100	22.1	23.1	5.6	22.8	3.0	13.7	6.8	2.9
Hospitals 1956	100	12.4	22.4	8.4	28.8	5.2	8.8	10.8	3.2
Public libraries	100	15.8	29.5	7.5	26.9	6.4	9.6	2.2	2.2

Sources: Savezni zavod za statisticku SFRJ. Statisticki Godisnjak SFRJ 1989. 1990: 58, 418; Statisticki Godisnjak SFRJ 1918-1988. 1989: 43, 50, 103-105, 283-284, 425-426

of the total population, Slovenia made 25 percent of the GDP in industry, while Montenegro composed 2.5 percent of the population and made 0.7 percent of the total GDP of Yugoslavia. Physical and social infrastructure was severely lacking in the less-developed regions -- for example, with 8 percent of the population, Macedonia had only 2.2 percent of total public libraries in Yugoslavia, while Bosnia had only 8.8 percent of total Yugoslav hospitals for almost 17 percent of Yugoslavia's total population. By 1955, Slovenia had four times the industrial workers per 1,000 population of Macedonia and Kosovo, and over three times the per capita GDP of Kosovo.

### **3.3 Conclusion**

In short, the command period was characterized by the establishment of a system which persisted into the reform years. The agricultural sector and agricultural regions were squeezed by low investment and harsh government policies, while industry, particularly heavy industry, was prioritized during the command period, especially in the less-developed areas. It might be expected that the heavy industrial sector (and the regions in which it was located) would prosper under government favours. However, the government was engaging in contradictory policies: while heavy industry was subsidized, terms of trade were slanted against raw materials production. It is also possible to say that the tendency for many of the favoured enterprises (and the regions in which they were located) to rely on government subsidization (and other favours) was, in the end, a disadvantage for certain regions (at the republican level, Bosnia and Hercegovina, Montenegro, Kosovo, Macedonia, Serbia). When the cushion of government support was snatched away later in reform years, these enterprises were ill-prepared to weather the free market and its demands for efficiency.

Hamilton (1968: 141) notes that during the command period in Yugoslavia, "sector planning of growth ha[d] taken precedence over spatial planning. Indeed, regional growth rates [were] largely by-products of growth rates in the various economic sectors." He provides the example of the mountainous hinterlands of Bosnia and Hercegovina (favoured for extractive industries), which, during the command period of the state prioritization for heavy industry, received substantial sectoral investment. From 1953, when the industrial bias shifted to manufacturing and consumer sectors, investment decreased in Bosnia, and increased in Slovenia and Croatia. Meanwhile, the overall suppression of the agricultural sector was reflected by the slow growth of agrarian regions in Serbia, Macedonia, Kosovo, and Vojvodina (Hamilton 1968). In effect, the overall result of Yugoslav regional policy reflected the predominance of the goal of specialization over that of equalization. While the central government tackled the problem of unbalanced development with redistribution of revenue to lagging areas by means of centralized investment allocations, sectoral priorities for rapid economic growth tended to dominate and cancel out equalization measures.

It has been argued that the tendency for the Yugoslav command system to favour industry in the Northwest, and industrial specialization in general over agriculture, was primarily based on uncontrollable exigencies, rather than faulty regional policy on the part of the Communists. External and internal pressures, including perceived defensive needs, further oriented the plan in such a way as to raise investment levels in areas offering higher immediate returns (the more-developed regions) in the interest of more rapid industrialization. Yugoslavia was considered too poor by the Communist theorists and planners for country-wide balanced development, particularly in the face of increased external pressures from Cominform (Bombelles 1968). To the Yugoslavs, national self-sufficiency and security could only be accomplished through a quickening of development

in a variety of key productive sectors which were to take advantage of regional comparative advantages --thus, essentially a policy of specialization (though not always the most appropriate specialization for each region). Balanced regional development became secondary to the priority of economic growth. The command strategy itself was imported from the Soviet Union, and therefore perhaps was not suited for the regional development of Yugoslavia. I noted in Chapter 2 that the socialist strategy adopted in Yugoslavia was made by and for the Soviet Union and then was uniformly applied to other countries, including Yugoslavia. The impetus behind reforms was also based on external (rather than internal) pressures and was reflected in a lack of input of diverse local initiatives, needs, and desires.

Regardless of the reasons which may be given for the inability of the Yugoslav Communists to follow through with their declarations of the need for regional equality, the final results for the period are testimony that the command system in Yugoslav practice was unable to promote balanced development. State efforts to reduce inequalities were insufficient to overcome factors of divergence for which the state itself was responsible (such as harsh agricultural policies), much less non-state forces of circular and cumulative causation associated with previously-existing regional differences among regions (e.g. in population growth rates, infrastructural development, production facilities). In many ways, the inability of the center to coordinate its policies with regional realities represents a structural problem of the command model itself: terms of trade set by regional policy under a centralized urban/industrial-biased government allowed little feedback from lower levels and limited the voice of regional groups in efforts to correct the process of spatial divergence.

Many of these difficulties did not surface until Yugoslavia shifted into a market socialist system -- but the important factor here is that under a centralized system, the less-developed regions had little choice in the pursuit of a road towards industrialization. The useful local knowledge that could have been employed to make more economically rational decisions was not allowed expression under the command system. To make matters worse, while some regions were not given a choice in the form of development, for other regions dominated by agriculture, development was not even an option provided by the state; no localized power was capable of checking the tendency of central authorities to overlook the agricultural sector.

Yugoslav decision-makers ultimately treated inherited regional differences as a short-term problem that could be solved simply through the (arguably) equal treatment of republics and provinces and raising investment levels in the less-developed republics. This did nothing to address some of the underlying factors behind the differences specific to each region (Djurovic 1977). Overt and conscious regional equalization efforts by the government were canceled out not only by other contradicting state policies, but also by prevailing social divisions (e.g. national particularism), and the generalized force of cumulative processes involved in a downward spiral of overall development. This pattern was set before the Second World War, deepened under the command economy, and continued in the subsequent period despite the reforms of the Yugoslav model which would follow. The following chapter will examine in greater detail these reforms and their regional effects.



## CHAPTER 4. YUGOSLAV REGIONAL DEVELOPMENT UNDER MARKET SOCIALISM

### 4.1 The Importance of Social Factors in Yugoslav Regional Development

The preceding period was characterized by the imposition of a standardized political system in the form of the traditional centralized command model, and through this political structure, the uniform application of central priorities of industrial specialization (particularly in "productive" industries). The regional pattern which emerged from this strategy did not depart much from that prior to the Communist assumption of power. Despite claims that the command economy is ideally suited to ameliorate disparities, gaps in development conditions tended to widen during this period, between urban and rural, industrial and agricultural, and northern and southern areas.

The more-developed agricultural, light industrial, trade, and service sectors of Slovenia, Vojvodina, Serbia, and Croatia eventually rose above the state-imposed political and economic constraints<sup>1</sup> to relative prosperity following the command period. By contrast, the rural areas of Bosnia and Hercegovina, Macedonia, Montenegro, and Kosovo were squeezed by government policies of heavy industrialization. Moreover, in the Bosnian and Kosovan cases, development of the rural/agricultural, trade, and service sectors were further constrained by the traditionalism which is associated not only with the state of underdevelopment itself, but also with their particular ethnic group and religion (Islam),

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<sup>1</sup> I have already outlined the constraints on light industry (e.g. lack of investment) which had been imposed during much of the command period. As for the agricultural sector, the Yugoslav central government eventually weakened its strangle-hold. The agricultural sector was one of the few sectors allowed market interaction and competition. It is my argument that the lifting of overbearing central regulation in this sector was the central reason behind the later prosperity of the agricultural sector in the more-developed regions, which were more competitive on the market. The agricultural sector in less-developed regions unfortunately lacked access to market areas, due to the poor infrastructure in those areas. The agrarian sectors there were also caught in a vicious circle of poverty and primitive subsistence agricultural practices which did not produce much marketable surplus.

which, in Yugoslavia during this period, emphasized such things as agricultural activities, large families, and strict gender roles. The inability of the industrial sector of these less-developed areas -- so carefully "nurtured" by the state -- to ever reach the take-off point, was also intimately associated with the inability of the government to coordinate its policies with existing social differences: capital-intensive industries did not provide enough employment for the large unskilled labour force which, through high natural increase (among Muslims) was fated to grow even larger and make greater demands for development.

Much of the previous chapter focused on socialist development policy in Yugoslav practice. However, as I attempted to illustrate in the historical analysis of Chapter 2, the responsibility for the widening of regional disparities did not lie solely in the hands of the state: social forces specific to each region acted upon and reacted to government initiatives. But rather than throwing up one's hands in helplessness to such things as ethnic prejudice and segregation or Muslim traditionalism, it is more useful to think that we are not simply victims of circumstance: there were options for the government to follow -- good policies and bad ones. The failure of the Yugoslav government lay in its inability to acknowledge and deal with "non-rational" forces and coordinate its efforts in line with existing regional limitations, desires, capabilities, and needs.

For the command system of Yugoslavia and for the early market socialist system, regional differences, whether ethnic, religious, or even economic in nature, were not considered salient issues for discussion in the development agenda. In practice, ethnic issues were de-politicized by refusing to see problems as either specific to particular places, and as social

rather than economic and political issues (Plestina 1988).<sup>2</sup> Uniformity of approach was the norm and the practice, whether or not the people of a particular place, for example, spoke a non-Slavic language isolating them from others, refused to allow women to contribute to production, or perhaps already had more extensive experience in industrial production and international trade.

In and of itself, this standardized form of development which extended into the market socialist period perhaps had some potential to contribute to the prosperity of Yugoslavia. But uniformly unfavourable government policies for private agriculture and raw materials production (sectors which were predominant in less-developed areas), in addition to differential market forces and social variations arising from ethnic heterogeneity in most of the areas, all acted as forces of divergence for Yugoslavia. It is the purpose of this chapter to discuss these developments within the context of the reformist framework chosen by the Yugoslav government. This chapter will elaborate on my previous arguments and attempt to interpret Yugoslavia's regional development of the last forty years of (what can tentatively be called) market socialism, through an approach that attempts to integrate different levels of region (local, intra-regional, republican, and national) and different kinds of influences (external/internal, socio-ethnic, political-governmental, and economic/market).

There are several facets to this chapter. Firstly, there will be a discussion of the structure of the Yugoslav system under market socialism, with a critique of the reforms, and their regional consequences. It seems that one of the direct results of reforms was the

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<sup>2</sup>Plestina (1987: 7) goes on to say: "because the development of the [less-developed regions] is such a central and critical problem for the Yugoslav regime, . . . they carefully avoid public confrontation over the issue for fear that the multiplicity of interests affected by both the problem and its potential solutions would be so divisive as to threaten the political stability of the regime, they insistently attempt to divorce it from 'politics'."

uncoordinated interaction of plan and market, and the combination of the worst features of each. This was especially detrimental to less-developed and agricultural regions, which were unable to compete politically in planning, or economically in the market. The market/plan structure of the market socialist system was closely tied with the reality of bureaucratization at the republican level, resulting from the combination of the worst aspects of decentralization (localism and monopolization by stronger areas) and centralization (inefficient and biased treatment of regions by elites). The very structure of the decentralized Yugoslav system tended to isolate the less-developed regions; the diffusion of technology and knowledge was not only hindered by ethnic divisions but also political and economic ones, as the republics and provinces became increasingly autarchic.

The result of the Yugoslav market socialist structure in terms of regional policy itself was also contradictory. While the government made some attempts to address regional disparities (through for example, the Federal Fund), regions simultaneously attempted to be self-sufficient, thereby duplicating industries for which they may not have had a comparative advantage. Specialization was also attempted in a pattern of light industry in northern areas and heavy industry in southern less-developed regions. The less-developed regions continued to specialize in heavy industrial production, which was unprofitable, for reasons associated with contradictory government policies (e.g. pricing and tariffs), market uncompetitiveness, and social factors (e.g. low utilization of the large unskilled labour force). Agricultural regions, especially in less-developed regions, were disadvantaged by government policies (constraints on the private agricultural sector) as well as market uncompetitiveness. In short, the central state and the Yugoslav reformed structure (decentralized centralization) tended to be biased against less-developed areas. Problems related to state policies were coupled with disadvantages that rural areas and less-developed

southern regions experienced with the nascent socialist marketplace (e.g. lack of attractiveness for foreign investment).

As I have attempted to emphasize throughout this thesis, the fate of Yugoslavia was not entirely left in the hands of the state, nor was it based only on economic factors. The regional development of Yugoslavia was also based on ever elusive social factors which are not adequately considered in socialist models of development, nor in explicit socialist efforts to implement a policy of regional development. The problem of inherited social divisions and disparities, a central factor behind the failure of both the Soviet Union and Socialist Yugoslavia, does not justify an apologia for the Communist Parties of these countries. As I argued in Chapter 3, the efforts of the Yugoslav Communist government to address regional differences directly were not adequate for the needs of the less-developed regions, or for the unity of Yugoslavia itself. The same could be said for the market socialist period. For example, the Federal Fund was established in 1965 (following the elimination of the General Investment Fund of the federal government) to redistribute the revenue of the more-developed republics to less-developed regions. But this effort to bolster the development levels of the less-developed areas was inadequate, given the economic and social factors that needed to be overcome, such as those arising in less-developed areas from inefficient production and circulation methods, a large unskilled labour force, high rates of natural increase, low labour productivity, and lack of adequate social and physical infrastructure. This indicates that in many cases economic problems were intimately related with social factors, such as Muslim traditionalism, ethnic insecurity, and republican refusal to cooperate with other ethnic regions.

The preceding paragraphs illustrate that while attempting to interpret Yugoslav regional development, a classic "chicken or egg" dilemma appears which resurfaces throughout this

thesis. Was government policy the central influence on the process of continued regional divergence in Yugoslavia, or was the structure of government and regional policy simply the product of existing regional divisions and disparities? Did Yugoslav government policy provide a central impetus towards the factionalization of Yugoslavia through its policies of first extreme centralization followed by extreme decentralization? Or did regional antagonisms simply manifest themselves in state policies and actions through the individuals in power in Belgrade (given that they were never really able to claim to be objective "Yugoslavs" rather than say, Croat, Slovene, or Macedonian) ?

As I have indicated in previous sections, I believe that it would be erroneous to give too great of a deterministic weight to either the power of the government or the power of regional loyalties and the persistence of place-specific differences. The forming and implementation of federal policies is, to me, a human attempt to overcome regional particularisms. Realistically, however, these particularities exist and have an influence on political and economic decisions. Thus, I see the relationship between these two forces as mutually reinforcing, rather than characterized by the absolute precedence of one over the other. Poverty influences education and family structures; and sometimes family structures, such as large families in Kosovo, exacerbate problems such as high unemployment, and further poverty. Although a person may be part of that structure and constrained by it, they also influence the structures themselves (through, for example, education or technological change). Similarly, the Yugoslav government had some power to change the country's situation.

For the Yugoslav case, because the more obvious political and economic structural changes have been so inextricably intertwined with social movements and change, it is important to look beyond the day-by-day historical events, such as the change in regulation of prices or

laws associated with the autonomy of enterprises, to develop an overview of general trends in development. The Yugoslav system progressed (or regressed) through such reforms as three different constitutions, the increase in the role of the market, the establishment of a delegation system and various other "decentralized" socio-political and economic organizations, and the creation of a series of laws to support these structures and limit the powers of the federal government. For the purposes of this thesis, however, it is difficult to examine the progression of Yugoslav reforms and their effects on regional development in a technical, linear fashion, as they collectively had an influence on many different levels of Yugoslav politics, economics, and society (and vice versa). Thus, rather than using a strict timetable of events in socialist Yugoslavia's history, I will continue to refer to the dialectics which I have used throughout the thesis -- market and plan, centralization and decentralization, and specialization and self-sufficiency -- in terms of society, politics, and economy, and the regional development of Yugoslavia in nonchronological fashion. In order to orient the reader, a brief historical overview of the reforms is first provided.

#### **4.2 Historical Overview of Yugoslav Politico-economic Reforms 1952-1990**

For a mixture of political, economic, and ideological reasons,<sup>3</sup> the Yugoslav system was altered through a number of measures: firstly, the establishment of self-management

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<sup>3</sup> For Yugoslavia, the adoption of market reforms and administrative decentralization in a socialist system signified a break from the traditional Soviet command model of development. This sudden change of Yugoslav economic and political strategy did not arise spontaneously -- Yugoslavia itself was under considerable pressure internally and externally. The Yugoslav Communists found themselves in a crisis of legitimization when ostracized by the Communist world and felt a need to emphasize Yugoslavia's autonomy by deviating from Soviet planning theory and practice (Singleton and Carter 1982). The Yugoslav leaders declared their disillusionment with the tendency of the command system to encourage bureaucratization and economic inefficiency and thus hamper not only democracy, but also economic growth. The Yugoslav authorities then proceeded to justify their pursuit of a different "road to socialism" with typical market socialist arguments: more intensive development required a "withering away of the

socialism; secondly, the adoption of a number of reforms designed to decentralize economic power to individual enterprises ("BOALs" -- basic organization of associated labour) and local territories or communes ("socio-political communities"); and thirdly, the imposition of reforms which decreased federal and increased republican, provincial, and (to a lesser extent) local administrative power. Throughout the period, the market was selectively introduced into various sectors of the economy (e.g. the freeing of prices in certain sectors of the economy). These reforms were not strictly chronological and cumulative; indeed, there were cycles of tightening and loosening of central control over the years. Nevertheless, there is little argument that the eventual general outcome was a (selectively) decentralized and market-oriented system (Chittle 1977).

The first wave of reforms (beginning in 1952) included a shift of many of Yugoslavia's sectors (particularly industry, but later education, culture, health, and other non-economic activities) from state ownership to "self-management", in which management of property theoretically lay in the hands of the collective's workers and the local community, rather than the distant and often misinformed central state. Production, marketing, employment, and distribution of net income were thereafter enterprise-level decisions. In Yugoslav self-management socialism, workers' councils were set up in order to facilitate participatory decision-making at the level of individual enterprises. The expected result of this arrangement was more efficient (industrial) production, as each relatively autonomous enterprise was compelled to compete for its own survival (Prout 1985).

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state", so that more efficient methods of production could be utilized by competing enterprises (Milenkovitch 1971). Reformism included the acceptance of the need for free market relations (to an extent, of course) and decentralization of decision-making power in order to minimize the dead-weight of excessive bureaucracy perceived to exist in Soviet-type systems and that discourages local initiative.



Self-management reforms certainly made inroads in the establishment of some market mechanisms in Yugoslavia (such as market prices on some goods), but certain aspects of the economy and decision-making remained in the hands of central authorities: pricing of raw materials, allocation of investment, finance, and foreign trade. Despite Party rhetoric, self-management was imposed from above and did not allow for much freedom of decision-making at the grass-roots level. Major decisions remained in the hands of federally-appointed enterprise directors and managers who tended to be influenced by federal and local administrative authorities, reflecting little real change from the command period (Prasnikar and Prasnikar 1986). As Prasnikar and Prasnikar (1986: 174) note: "it can thus be said that at this time self-management [was] not liberated from the system of economic transactions set up during the period of centrally-planned economy."

The second wave of reforms (1961 to early 1970s) consisted of further decentralization to the level of the enterprises, in response to the perceived need for free market relations and limited bureaucratic interference in order to stimulate a faltering economy (Golubovic 1986). Enterprises were given increased control of many aspects of economic decision-making. The most significant changes during this period were the establishment of commercial banking and the decentralization of decision-making regarding investment and foreign trade (Prasnikar and Prasnikar 1986). However, the actions of enterprises ultimately continued to be dominated by the heads of enterprises in concert with republican and communal governments, which also controlled the newly-established banks. There is a recognizable decrease in the influence of the central government at this point, but it is important to note that the banks were dominated by the republican governments, and investment and foreign trade decisions were often made by enterprise heads in collusion with republican and commune authorities.

This second period was characterized by fluctuations in the degree of federal control, depending on the state of civil unrest. For example, rising civil dissent -- specifically ethnic conflict -- was strongly expressed by the Croats.<sup>4</sup> The federal government clamped down in order to suppress such insurrection,<sup>5</sup> restoring not only social and political control (through re-centralization to the federal level), but also its full economic control through pricing and investment allocations. Ultimately, decentralized competition in the free market was limited, as the central government restored its strength to intervene in political, economic, and social affairs until the next series of reforms, which was heralded by the 1974 Constitution (Golubovic 1986).

The primary importance of the second period of reforms is related to interconnections between state politico-economic policy and social factors such as ethnicity. During this time, the federal government was still able to respond to these social factors, primarily in an attempt to suppress them. The following period, however, seems to indicate the weakening of federal power in the regulation of social factors (as well as economic and political ones), as exemplified by the economic and administrative fragmentation of Yugoslavia and the rise of inter-regional ethnic conflict which ultimately escalated into civil war in 1991. The weakening of federal regulatory ability seems to have been a voluntary "suicide" on the part

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<sup>4</sup> The uprising of the Croats (culminating in 1971) was related to a complex set of issues which can be traced to many different sources. Economically, the Croats felt exploited, as a proportion of the Croatian GDP was taxed and redistributed to the less-developed regions. This was perceived to have been frittered away by the ethnic groups of those regions. Politically and socially, the Croats felt threatened by the more dominant Serbs, who were thought to have a disproportionate representation in the government and also were seen as imposing an agenda of pan-Serbian assimilation of the other ethnic groups (Rusinow 1985). Many of the ethnic groups of Yugoslavia feel threatened by Serbians, considering their history of dominance (especially during the interwar years). Such perceptions on the part of ethnic regions toward other groups is a common theme in writings and in general conversations with Yugoslavs. Serbians, by contrast, felt that they were exploited by not only providing cheap raw materials to other republics (particularly Slovenia and Croatia), but also by contributing much of their GDP to less-developed regions outside of the republic of Serbia. Similar accusations were made by members of other republics. Ethnic prejudice on the part of the Serbs towards Croatians is related somewhat to wartime atrocities of the Ustasha. In addition, Christians and Muslims have a tendency to view each other with distaste.

<sup>5</sup> "Clamping down" refers to the imprisonment of nationalist leaders, federal control of the media, and the purging of local and republican officials reputed to have nationalist sentiment (Rusinow 1985).

of the federal government: the government took steps to decentralize, giving more freedom of expression to ethnic differences (albeit primarily among republican and provincial bureaucrats) than was possible under the command system. The expression of ethnic differences was still not an option for individuals -- no tradition of democratic discussion of differences was provided by the state, and it was more likely that local and republican Communist bureaucrats used ethnic tensions to manipulate political and economic situations to their own advantage.<sup>6</sup>

Republican bureaucratic domination was made possible through the third period of reforms (the early 1970s until the civil war), which consisted of further market reforms and decentralization at the level of the enterprise, and more significantly (in terms of regional development), the gradual decentralization of administrative decision-making to the local and republican level. Such economic decisions as investment allocations, pricing, and foreign trade were agreed upon collectively by the (republican-dominated) enterprises and the respective administration of each republic or province. The role of the central government was more of persuasion than direct control, as the enterprises and republics were basically free to discard the economic directives of the central state (Singleton and Carter 1982).<sup>7</sup>

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<sup>6</sup> Devetak (1988: 115-116) states that "individual bureaucratic structures try, in the 'name of the people', to decide their life interests for them. The same group also pretends to represent the 'national interests' . . . Inadequate democracy in the activity of the majority of social institutions -- from the state to the socio-political -- offers numerous possibilities for political manipulation of public opinion, for concealing the real reasons of [Yugoslavia's] material, political and moral crisis and for the concealment of the incompetence of individual bearers of social functions (in this way the system is unnecessarily discredited as a whole)." I find Devetak's final parenthetical statement interesting. In my interpretation, since the Yugoslav system itself was based on a one-party monopoly of power, such manipulation by the republican bureaucratic elite was virtually inevitable.

<sup>7</sup> Some residuals of central control remained, however (such as pricing policies and federal financial aid), and many of the regional and sectoral policies (investment allocation in heavy industry, for example) were simply coopted by the regional bureaucracies.

It was the virtual total relinquishing of control by the center which, I argue, contributed to the extreme factionalization of Yugoslavia during this last period. For, in order for the socially and economically divided republics and provinces to cooperate for the good of the nation as a whole, there was a need for some positive (and yet non-coercive) force of integration and cooperation which the Yugoslav federal government never provided. Moreover, the surcease of central government control, after a long period of a rigid command system, created something of a "slingshot" effect. After years of being unable to express the particularities of their own regional and social identity and economic interests, many of the people of each ethnic republic and province suddenly became strongly and overtly nationalistic. Strong nationalism combined with ethnic tensions arising from a number of economic and political issues (such as hoarding of goods, or perceived wartime atrocities), limiting integration or cooperation among ethnic groups which perceived each other as dominating and exploitative forces.

At the time of implementation, the market socialist reforms appeared to be radical shifts from the traditional inefficient and undemocratic command economy. In retrospect, however, it has become increasingly clear that despite the rhetoric of Yugoslav leaders, the reforms had little substantial effect in practice toward altering some of the central components of the command system. While the central government was weakened in its coordinating and/or coercive ability, tight bureaucratic control existed at different lower levels of the politico-economic system (republic, commune, enterprise). Ultimately Yugoslavia continued to exhibit many of the symptoms associated with the inadequacies of a model in which bureaucracy continued to dominate -- shortages, a rampant second economy, inefficient and unproductive industries, and environmental degradation. In terms of regional development, areas specializing in agricultural and/or heavy industrial sectors stagnated. As Golubovic (1986: 5) writes:

"The result [of market reforms and decentralization in Yugoslavia] was a society which built new elements of a market economy and new institutions of workers' councils and other self-management bodies into the foundations of the established structure of social and production relations. [This established structure was] based on the orientation toward nationalizing the means of production in industry and accelerating industrialization, while neglecting agriculture despite the fact that the postwar structure of Yugoslav society was primarily agrarian -- [and through a] political structure which was based on the authority of the power won by the Communist Party as the undisputable leader."

In short, the new model still did not allow adequate expression of place particularities in the political and economic arenas, so much as furthering of the ambitions of the republican and local elites.

The Yugoslav reforms consisted of a gradual weakening of the plan and the central state apparatus, and the increasing (mis)expression of local particularities through the imperfect form of regional ethnic elites. As the decision-making structure continued to be dominated by Party bureaucrats using imperfect information to impose regional policies that were not consistent with local capabilities and needs, places more suited to agricultural, service, or light industrial development (by virtue of, for example, a large unskilled labour force) were suffocated with governmental imperatives. Less-developed regions were unable effectively to choose and follow a path to development that was suited to their needs. Even if the reforms resulted in a complete turn toward a decentralized and democratic market socialist system (which they never really did), heavy industrial projects had already been established in the less-developed republics and were not likely to be easily uprooted by new local initiatives, which tended to build on the existing order. This was particularly true given the extent of the depressive conditions in these regions and given the control of republican administrations, an integral characteristic of the model of socialist politico-economic structure in Yugoslavia.

To conclude this historical overview, it is possible to see the following in Yugoslav market socialism: despite reforms, the plan and centralized power did exist to varying extents in Yugoslavia for many years beyond the command economy. Some would argue<sup>8</sup> that the reforms of the Yugoslav economic and political system actually resulted in a combination of the worst aspects of both planned and market systems. On the one hand, government subsidization weakened competitive initiative and more efficient production in the less-developed areas. Those enterprises which were ready to take-off were constrained by the heavyhanded bureaucracy characteristic of planned economies; only this time, a bureaucratic layer was added at the regional and local levels which was preoccupied with the politics of inter-ethnic competition. On the other hand, less-developed regions that were unprepared to compete in the market on the same level as the more-developed regions did not receive prioritization by a weakened central government. In addition, the market gained expression in a regionally-centralized system through the evasion of governmental regulation via the black market and other illegal economic activities (often committed by those in the highest echelons of the Yugoslav bureaucracy) which tended to benefit those who already had something to sell or steal. The worst aspects of decentralization arose in Yugoslavia: extreme localism, autarchy, regional self-interest, escalating nationalistic tendencies, and imperfect competition among isolated regional entities leading to the widening of disparities. These were combined with the worst aspects of centralization: corruption, inefficiency, and bureaucratic overload leading to development skewed toward favoured regions and sectors. In addition, the worst aspects of specialization and self-sufficient development arose under a government which promoted both of these processes simultaneously without sufficient coordination between them. On the one hand, industrial specialization in urban areas and more-developed regions without adequate compensation for the disadvantaged regions and sectors resulted in a widening of the gap between more-

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<sup>8</sup> Such as Brus (1989).

developed and less-developed regions. On the other hand, an emphasis on self-sufficient development in each republic and province resulted in the wasteful duplication of production which, due to the specialization advantage in northwestern regions, left the South even more unable to compete on the market.

These conflicting forces -- plan and market, decentralization and centralization, as well as the government's penchant for pursuing contradictory regional policies -- on top of existing social, economic, and political divisions and disparities -- had a profound effect on regional development in Yugoslavia. It is the purpose of the following sections to provide a more detailed examination of the interaction between governmental and non-governmental forces and their role in Yugoslav regional development. The first section will attempt to interpret the reforms in the planning system of Yugoslavia, with reference to their importance in regional terms.

#### **4.3 Inefficiency and Inequality of the Yugoslav Market Regulated by Plan**

The Yugoslav planning apparatus changed during the market socialist period, according to its importance and influence relative to the market. It is apparent that the most significant change of the Yugoslav planning system occurred in conjunction with the implementation of self-management socialism (1952-1960): methods of planning deviated from a central plan (with strict and detailed production targets prescribed by the state) toward a set of centrally established economic parameters within which enterprise and local plans were required to operate (Singleton and Carter 1982). The role of the state was to provide macro-objectives to which enterprises were expected to conform in their day-to-day decisions. Subsequent reform (in the 1960s) established a system which was geared towards balancing the power of the local level and the state: "enterprises, communes,

districts and republics initiated plans . . . which were co-ordinated by the Federal Planning Institute, which . . . in consultation with the republican planning institutes, drew up the final plan in the light of the proposals from below and of the policies of the federal government" (Singleton and Carter 1982: 131). In short, it is apparent that there was a shifting of emphasis from a federal plan to the plans of enterprises, republics and provinces, and local areas, as the formal central plan became a vaguer document outlining the macro-objectives of the state, rather than a set of binding directives.

With further decentralization reforms, much decision-making within the planning system eventually gradually devolved to the level of the enterprise and local areas, in the form of "contractual planning" through self-management agreements and social compacts. Self-management agreements consisted of planned production targets and circulation deliveries<sup>9</sup> agreed upon between and among enterprises or Basic Organizations of Associated Labour (BOALs). Social compacts were agreements between and among socio-political communities which were supposed to be coordinated with the BOALs in order to attain the most efficient distribution of activities and economic benefits.

The primary aim of this decentralization process was to promote more grassroots participation and less Party interference in economic affairs, thereby stimulating greater efficiency through enterprise competition (Prout 1985; Devetak 1988). In theory, the contractual planning system gave the enterprises considerably more freedom to pursue production goals which were more consistent with local supply and demand, and released the state from the monumental task of formulating and enforcing the directives of a plan. However, the central authorities also perceived a need to prevent rising social inequities that

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<sup>9</sup> Circulation delivery agreements were made regarding the appropriate splitting of the regional markets, and delivering and receiving of raw materials or finished goods among enterprises.



they associated with an uncontrolled market. The self-interested profit-motivated tendencies of enterprises operating within a market system were supposed to be regulated by social compacts within the local areas, in addition to the soft direction of the state plan, in order to make these enterprises conform to general policy objectives.

As in other market socialist systems, the state was also able to promote its agenda to varying degrees through such avenues as law and regulation (e.g. the Law on BOALs), and credit and fiscal policies (Milenkovitch 1971). For example, the state continued to control pricing of some products (particularly agricultural and heavy industrial products), as well as tariff rates (e.g. high import tariffs for finished goods). In addition, the state was able to procure funds through taxation to support redistribution to lagging regions (via the Federal Fund), in order to counter the disequilibrating tendencies of the market. The state also initially had considerable control over investment decisions until this was gradually handed over to republican banks and enterprises.

Many authors (such as Prout 1985) uncritically praise the intent (and assumed result) of the weakening of the central plan and the establishment of cooperative agreements among regions and enterprises: more efficient production through the expression of local particularities. Unfortunately, time has told a different story. A more realistic interpretation of Yugoslavia's plan/market performance portrays many problems related to an unhealthy intertwining of market forces and government interference, in the context of the social situation of Yugoslavia. The very undesirable aspects of the market which the Communists were attempting to avoid were amplified in a decision-making structure that continued to award disproportionate decision-making power to the few: the enterprise heads and regional elites.

The distribution of decision-making power did not promote participation from the lower levels, but rather the domination of pockets of enterprise and local administrative elites, most of whom were members of the Communist Party. Thus, a (legal) free market never in fact existed, as monopolization of power and economic benefits became the norm in practice. Neither equal competition nor labour and capital mobility existed in a system in which government policies favoured industries, sectors, and regions in which there was a vested bureaucratic interest.<sup>10</sup> Many "favoured" industries were supported by the government as it interfered in the workings of the market. Such industries benefitted from subsidization and/or government-imposed favourable terms of trade for their products. On the one hand, some sectors, such as private agriculture (predominant in less-developed areas), suffered without the support of the government. On the other hand, government protectionism undermined market efficiency and competitiveness of some enterprises (especially heavy industry of less-developed regions), which rested on a cushion of subsidization which eventually would be pulled out from under them.

A great percentage of industries in less-developed areas were subsidized, in the interest of giving these regions a boost up in growth. Unfortunately, the enterprises of these regions became overly dependent on a government which was incapable of making economically sound decisions (or politically or socially sound, for that matter). Those enterprises and regions which already possessed capital (and other development factors not tied to the government) clearly held the economic advantage. They were able not only to ride out the policies of the central government and their market repercussions, but also make investment decisions that were more consistent with regional economic and social realities. This, in turn, eventually fed into a spiral of greater social harmony and productivity.

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<sup>10</sup> Hamilton (1968) asserts that some ethnic groups, particularly the more educated and politically proficient Slovenes and Croats (and among less-developed regions, Montenegrins), were well-represented in the political system of Yugoslavia, in contrast to a less coherent group such as the Bosnians.

The central government was not able to control its own bureaucratic interference, nor was it capable of limiting inequalities in market interactions among bureaucracy-dominated enterprises, or irresponsible behavior (e.g. excessive environmental disruption) by these enterprises toward the regions in which they were located. For example, it was not obligatory for the BOALs to fulfill the directives of the social compacts of the socio-political communities if they were not included in enterprise self-management agreements. Thus, some of the actions of enterprises were not necessarily in the best interest of the local area in which they were located, but rather were in their own economic self-interest.

An additional problem of the Yugoslav interaction between market and plan resulted from the inability of the government to control the self-interested actions of individuals, as well as whole enterprises and even its own bureaucrats, which resulted in the growth of the informal sector, or second economy, in Yugoslavia. "Greater freedom of action (in the non-political sphere) . . . mean[t] that citizens use[d] up their energy more on the market than participation . . . and that they [were] more interested in their personal prosperity than in the progress of society" (Golubovic 1986: 40). This self-interested activity often became manifested in the form of illegal (or "non-legalized") activities. Social property was used for private profit, and enterprises which held a monopoly on a good or service inflated their prices or dictated their terms arbitrarily. Various economic crimes of embezzlement and stealing from the state were also common (Golubovic 1986). Through the operation of this underground unregulated market, those that already had an initial advantage profited the greatest. Urban dwellers (especially of more-developed regions) had the advantage of accessibility to the black market to enhance their disposable income with which to buy goods and increase their standard of living.

The discussion on the plan/market system of reformed Yugoslavia has thus far been one that could be used as a general criticism of a market socialist politico-economic model. However, a central point of this thesis also lies in the contention that social factors specific to the Yugoslav case interfered significantly in the planned market system. An efficient allocation of capital and labour could not be achieved in a country in which there existed great cultural, religious, and linguistic divides. For example, the Yugoslav government hoped to attain a more efficient division and utilization of labour by maintaining a free labour market. It was expected that the unskilled labour of southern Yugoslavia would be attracted to the jobs available in labour-deficient Slovenia and Croatia (Moore 1980). This indeed did occur, but to a far more limited degree than anticipated, as the southern ethnic groups (particularly the non-Slavic Albanians) had their mobility limited not only by poverty, but also by their language, religion, and social customs. By contrast, the interchange of labour and capital between Serbia and Montenegro was much freer (given ethnic, religious, and linguistic similarities), and favoured development of Montenegro relative to other less-developed areas (Singleton 1976).

With market and decentralization reforms, capital and labour immobility due to ethnic divisions actually seemed to increase. Yugoslav administration was decentralized to the level of the republic and provinces, ethnic separation deepened, and Yugoslavia became increasingly politically, economically, and socially fragmented at the horizontal level. As Seroka (1988: 130) notes:

"Regional attempts to protect the local economies have further worsened the situation and have acted to close the markets of each province and republic to one another, to subsidize inefficient enterprises, to discourage economies of scale, and to hinder the free flow of information and technology necessary to compete in the world market-place. Each republic and province ha[d] progressively become a self-sufficient market, with the net effect that the political leadership ha[d] lost much of its economic leverage and ability to direct social policy."

Enterprises of the more-developed republics were reluctant to invest in another republic in which they would have no guarantee of control over the subsidiary (Hamilton 1968; Plestina 1987). Ethnic antagonisms, and market and administrative fragmentation were particularly harmful for less-developed regions, preventing them from attracting the much-needed investment from the enterprises of more-developed regions, and from furthering their own development through the creation of more employment or the financing of social services (Moore 1980).

Ideally, the principal role of the central government in this type of market socialist situation would be the coordination of plans to compensate for the inability of the market to match supply with demand. But as Ramet (1985: 326) notes: "while decentralization mollified the nationalities and allowed local elites to rise within local hierarchies, it also provided institutional instruments for the economic isolation of the federal units from each other. As a result, the economic plans made by the respective federal units have regularly been at odds both with each other and with the supposed goals of the federation." Thus, the social, political, and economic division of Yugoslavia resulted in inefficiencies and lack of coordination that were especially hard on less-developed regions. "Indeed, the main weakness of the system appears to have been the fact that most projects were considered in isolation, with little or no co-ordination between projects, despite the plan" (Singleton 1976: 152).

In short, it is evident that the planning/market system of Yugoslavia was beset with problems that can be traced to the actual structure of decision-making power. The market was not free and plans were unable to regulate properly in a system in which essentially self-interested bureaucrats held the reins of political power and competed unequally on the market. In the following section, I will outline the form that decentralization took in

Yugoslavia, with the constant reminder that as the units of power rested on ethnic regions, the results of administrative decentralization reforms were inextricably intertwined with the influence of social factors .

#### **4.4 Inefficiency and Inequality of Decentralized Centralization**

Decentralization was pursued in the Yugoslav system in three different ways: firstly, the establishment of non-central organizations such as workers' and producers' councils and socio-political communities; secondly, decentralization of production decision-making to the level of the enterprise and banks, as well as the representation of enterprises (and their respective socio-political communities) in the central and republican governments through the delegate system (in which delegates from enterprises were chosen to represent segments of the population in the political system); and thirdly, overall decentralization of regional administrative power to the level of the republics and provinces, and to a lesser degree, the communes. Each reform was designed in some way to represent the enterprises in government (e.g. through the delegate system), or to involve the local and republican government in the actions of its enterprises (e.g. social compacts between enterprises and socio-political communities), while simultaneously decreasing the power of the federal government.

The Yugoslav reformers were interested (rhetorically, at least) in a more balanced interaction of enterprise and state, as well as region and state. The system of workers' councils was established in the interests of promoting a form of participatory democracy at the level of the enterprise. Plan targets were arrived at through conferences of the workers' councils with republican planners and so-called "people's committees" of residents of the

region in which the enterprise was located (Neal 1958). This structure of decision-making and planning was designed to coordinate the profit-seeking efficiency of the enterprises (and the workers) with the long-term desires of local communities. The commune (the most dominant form of socio-political community) gained increased importance in the Yugoslav system following these reforms. Communes were considered the primary unit of self-management democracy whereby local initiatives and particularities could be expressed in the republican government and, eventually, in the federal government. (Darby, et al 1966) Local particularities were also to be coordinated through the system of representation in which local delegates were sent to federal and republican assemblies. The 1963 and 1974 Constitutions also provided for greater executive and legislative power for the republics and communes within the federal government through political structures such as the Chamber of Nationalities. The power of the republics increased as they shouldered political and economic responsibilities which were once solely made by the federal administration (e.g. investment decisions).

Decentralization reforms posed special problems for Yugoslavia. As indicated in Chapter 2 of this thesis, Yugoslavia itself was composed of a number of ethnic regions, each of which had experienced vastly different developmental experiences. Despite a supposedly unifying Communist ideology, the differences and disparities proved to be deeply ingrained in not only physically manifested variations in regional development levels (e.g. social and physical infrastructure, levels of industrialization) but also the very consciousness of the Yugoslavs themselves. In later years, when the Yugoslav system was decentralized to republican levels, the Communists faced a dilemma. Decentralization was considered necessary in order to allow each area to develop itself most efficiently without the encumbrance of central bureaucracy. But this very freedom allowed each social (ethnic) faction to pursue its own self-interest. The Communist Party and the bureaucrats of the

Yugoslav political system were reluctant to relinquish power to the local level for fear of the chaos that they perceived would result, and thus attempted an ill-fated compromise between centralization and decentralization. In effect, decision-making power was awarded to the republican and provincial administrations and enterprise heads-- the result was thus not decentralization per se, but simply decentralized centralization, which was ultimately destructive to the coordination of the regions and the unity of Yugoslavia and did little to address regional disparities between the northern and southern regions or between rural and urban/industrial communes. Instead of allowing ethnic grievances to become a subject for open and resolvable debate the state was unable to face and coordinate non-economic regional diversities such as ethnicity<sup>11</sup> because it continued to stifle democratic expression (Golubovic 1986).

Despite the objective of the Yugoslav reformers of balanced power distribution, the actual Yugoslav pattern of decision-making power was ultimately one of polycentrism -- centralization at the level of the republics and provinces. Resultant republican bureaucratic domination was related to the fact that opposition groups were still not allowed to voice their differences with the Communist Party. The Communist Party continued to have supreme influence over production units through subsidization, managerial control, and political interference (Zukin 1985). This concentration of decision-making power was eventually reflected in the units of administration, enterprises, and other local organizations and structures that were part of the decentralization reforms. For example, the Party (via enterprise heads and managers) and the elite-dominated trade unions (both primarily

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<sup>11</sup> Devetak (1988: 113) states that a state (such as the Communist state of Yugoslavia) which overlooked internal social multiplicity "provided possibilities for the manipulation of political space, so that problems of national development which have occurred because of inadequate solutions and orientations 'internally' within the nation may be transformed into explosive political conflicts which directly threaten interethnic relations. In short, an atmosphere is created in which there is less and less room for healthy confrontation among ethnic subjects which make up multinational communities, in the creative fields of all areas of life, from culture to economy and technology."



influenced by the republican governments) tended to monopolize decision-making power in the workers' councils (Neal 1958). This tendency was also apparent in the delegate system: "the political attractiveness of a delegate [did] not depend on personal capabilities, but rather on his [sic] loyalty to the republican and provincial structures" (Seroka 1986: 136).

The dominance of republican elites exerted an ever strong influence on Yugoslavia. Throughout the 1980s, as regionalization and fragmentation increased, the ability of central authorities to bring enterprises and local and republican governments into line correspondingly decreased (McFarlane 1988). Decentralization also resulted in the fragmentation of the Communist Party itself according to republican and provincial loyalties. Because the structure of administrative decision-making for both the Communist Party and the formal federal state was based on consensus, and because the political, economic, and social interests of different ethnic republics seemed to be incompatible (Seroka 1986), Yugoslav decision-makers were unable to come to an agreement over a coherent collective regional policy (Ramet 1985).

McFarlane (1988: 132) paints a bleak picture of the situation:

"At first the idea of competing regional economic interests did not worry the [reformists]. They thought that ethnic rivalries as such were becoming less important, that access to resources was part of a political bargaining process. . . . [T]hey underestimated the amount of pain that there was going to be in the process of putting 'regionalism' on a sound enough footing to make it compatible with socialist goals. Certainly they did not foresee that local political mafias linked to huge enterprise conglomerates would become [a] law unto themselves."

The problems associated with contractual planning illustrate the inability of the reformers (in the central government) to understand the realities of Yugoslav society and how reforms

would reflect or be reflected by social factors. For example, the social compact, in theory, provided for consensual and coordinated decision-making among enterprises, communes, and republics and provinces. However, given the depth of differences among the differences of these ethnic regions, it was difficult and time-consuming, if not impossible, to reach consensual agreements efficiently. In addition, the social compacts that were agreed upon were sufficiently vague to allow for considerable discretion and intervention on the part of republics and provinces, with widespread interregional differences in approaches, and subsequent lack of coordination (Tyson 1980). Self-management agreements encountered similar problems of cooperation and coordination.

The pattern of division and inefficiency within the federal government that resulted in its subsequent inability to coordinate at the republican level was further duplicated at the commune level. For example, Seroka (1989: 136) writes: "the central and republican governments provided no advance formulae for allocating investment funds and venture capital to the communes. This meant that the commune remained ignorant about what resources, if any, would be available to carry out the plan." The result was a cut-throat self-interested political competition among communes, and the eventual allocation of republican resources to the most competitive commune. This resulted in a skewing of development to the urban/industrial communes and other sectors which not only had political clout but were already more competitive than rural/agricultural communes in the domestic and international markets.<sup>12</sup>

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<sup>12</sup> Fragmentation and uncontrolled self-interest of political elites was also duplicated at the enterprise level. According to Golubovic (1986), the reforms of the 1970s (in conjunction with the decentralization to the level of the republic) only served to atomize the special interest of managerial elites while workers became increasingly distant from the actual decision-making process of enterprises. "Disintegrative prevailed over integrative processes, the result being: the absence of a unified policy and planning in the economy, the non-existence of a united market, the atomization of the working class and intelligentsia, and antagonism between national bureaucracies, euphemistically called the 'diversity of self-management interests' " (Golubovic 1986: 20).

Not only were the aggregate of republican and enterprise interests irrational for Yugoslavia as a whole but similarly, communal local interests (social, political, and economic) did not arrive at an aggregate that was logical for the republics and provinces, much less the nation. Again, the consensual decision-making structure could not resolve the differences of the communes in the interests of a coherent regional development policy. The communes were able to operate through the decentralized system in promoting their own self-interest, which tended to be based on short-sighted, economically unsound practices of autonomy, autarchy, and unsustainable self-sufficiency. "The decentralized planning apparatus could not avoid the error of duplication across communes, and many communes began to perceive their neighbors as competitors in economic development, rather than partners" (Seroka 1989: 133).

As with the role of the plan and market, the Yugoslav system has fluctuated according to degree of centralization or decentralization of decision-making, but has always been characterized by disproportionate control by Party officials, whether federal, republican and provincial, or local. It seems that the Communist Party, despite its rhetoric of "power to the workers" through decentralization, was unwilling to relinquish control in the face of perceived dangers of the free market: rising prices, high interest rates, and trade deficits (Prout 1985). As I noted in the previous section concerning relations between the market and plan, the federal government, while losing much of its political, economic, and social control, did succeed in maintaining "residuals" of strong central control: the Federal Fund for the development of underdeveloped areas, as well as pricing and tariff policies.

As the title of this section implies, the Yugoslav model reached an unfavourable compromise not only between market and plan but also between centralization and

decentralization. The economic efficiency and political expression of localisms or particularities which is (hopefully) associated with decentralized participation was never achieved, nor was central regulatory and coordinating ability maintained. On the one hand, reforms that gave greater strength to enterprise and regional heads over the federal government blocked the ability of the center either to enforce federal law and regulation or to promote a particular macro-economic plan, much less balance and coordinate the development of regions. On the other hand, individual expression was also limited in a self-management scheme that, for all its rhetoric, did not give people representation. Centralization at the republican, enterprise, and commune levels caused imbalances not only in the distribution of power and income (Flakierski 1989), but also in the bureaucratic favouring of some regions, sectors, or ethnic groups over others, and the imposition of inefficient politically-motivated production schemes in some areas (Burg 1986).

Much of the failure of Yugoslav decentralization can be attributed to the fact that the reforms were followed with little regard for the special situation of ethnic groups in Yugoslavia. Yugoslavia can be seen as a special case, in which social factors very strongly influenced the results of reforms: the ethnicity of the bureaucrats seemed to shape their interaction with one another, as enterprise heads and republican administrators increasingly saw their world being bound by republican, rather than Yugoslav national boundaries (Burg 1986). After a long period under the command system, in which nationalist issues were masked by economics and hidden by "regional" (rather than ethnic) concerns (Burg 1986), bureaucrats were eager to gain political clout in a political structure in which they were accountable only very partially to either the central government or to their "constituencies". Moreover, because of the self-interested behavior of each of the republics and provinces, and the limited role of the central government in reducing disparities, the less-developed republics

and the province of Kosovo were unable to compete with other republics and the province of Vojvodina.

As I have noted in previous sections, the fragmented centralized politico-economic structure of Yugoslavia had a number of ramifications on the pattern of regional development. This included: the duplication of production in regions that could ill afford wasteful investment, the prevalence of politically-motivated but economically inefficient projects in order to rival other ethnic regions, the continued favouring of certain sectors and regions by republican bureaucrats while other sectors that may have been more appropriate for a region's development were underrepresented,<sup>13</sup> and also the isolation and marginalization of technologies and capital from less-developed areas. In the following section, which deals directly with regional development in Yugoslavia, I will outline more specifically the influences of the polycentric structure of decision-making and regional fragmentation on vertical levels of regional development.

For the time being, one should conclude from this section of the chapter that this critique of Yugoslavia's decentralization reforms is by no means universally applicable to any country upon which the model could be imposed. My central point is that Yugoslavia itself had a particular set of social relations, especially among the ethnic groups, which was a central factor in the way in which people interacted politically and economically. Had all Yugoslavia's regions been equally prepared for the form of development the Communists intended, and had the ethnic regions -- particularly the republics to which power was

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<sup>13</sup> For example, as much as the delegate system appears to be in the interest of democracy, the Yugoslav system was structured in such a way that the number of delegates (i.e. to the Federal Council) was related to social product. As the social product was primarily based on the overwhelming social sector of industry, areas with a greater percentage of private agricultural production were underrepresented (Zaninovitch 1968). By the very nature of decentralization reforms, the agricultural population was isolated, as they were represented neither by the delegate system nor industrial workers' councils.

bestowed -- been inclined to cooperate and integrate, perhaps decentralization reforms would not have resulted in fragmentation of the politico-economic system. Moreover, had the republics themselves been internally ethnically homogeneous, perhaps the ethnic conflict which resulted from the efforts of some republics to secede would not have occurred. But for Yugoslavia, speculation based on *ceteris paribus* assumptions is useless. Actual regional development in Yugoslavia was not based on uniform applications of a socialist model, but rather on how people acted and reacted to that model within the context of their place, their culture, their conceptions of how things ought to be done.

#### **4.5 Inefficiency and Inequality of Simultaneous Specialization and Self-sufficiency**

As Chapter 3 indicated, the goals of Yugoslav regional development under the command model consisted of rapid heavy industrial growth and the equal development of all regions of Yugoslavia. As I argued in that same chapter, the former goal tended to dominate the regional policies of the federal government, which while operating under the command model, had the power to implement central policies over local wants or needs. This domination of bureaucratic priorities within state decision-making is significant for the continued regional development of Yugoslavia: although reforms were implemented early in Yugoslavia's socialist history, the domination of sectoral priorities in certain regions of the country (e.g. heavy industry in the South) remained. This illustrates the fact that the expression of local or regional particularities in "reformed" Yugoslavia was in reality quite limited by bureaucratic interests. Predictably, those regions which were not suited to urban/industrial development -- the less-developed republics and the province of Kosovo, as well as rural/agricultural regions -- did not benefit from the priorities of the center, and were subjected (where the center did not perform a "regulatory" function) to the downward circular and cumulative forces of the market.

Many studies have been conducted on the pattern of regional development, primarily at the republican level (e.g. Devetakovic 1989; Plestina 1987; Djurdjevic 1987; Flaherty 1988), and most works on Yugoslavia as a whole make reference to the importance of regional disparities. The existence of these disparities is well-documented and is reflected by nearly all statistical data, whether based on republic, commune, or sector. I could thus write indefinitely and ad nauseam about the pattern of regional development in Yugoslavia. However, the intent of this thesis was to examine and explain the underlying processes behind the regional pattern, rather than provide a detailed description of the pattern itself. In order to ground this study in the empirical realities of regional development, I will briefly outline the pattern of regional development that evolved during the market socialist period, and continuously refer to this pattern throughout the subsequent discussion.

It can readily be seen that disparities were not reduced during the market socialist period at the republican and provincial level, but in many cases the development gap widened (See Table 4.1 and Table 4.2). For example, the ratio of GDP per capita between Slovenia and Kosovo widened from 4:1 in 1955 to 16:1 in 1988. The ratio of investment per capita for the same regions and years was 6:1. Personal income in Slovenia grew to the point that it well exceeded even that of Croatia, Serbia, and Vojvodina: in 1988, Croatian personal income was 71 percent of that of Slovenia, compared to 95 percent of Slovenia's personal income in 1950. In 1988, Kosovo's personal income was only 44 percent of Slovenia's, compared to 77 percent in 1950. The data also indicate the greater reliance of the less-developed republics and Kosovo on agriculture. For example, in 1953, Macedonia composed 8 percent of the total population in Yugoslavia, and 7 percent of the total Yugoslav agricultural population. By 1981, Macedonia had 9 percent of both total and agricultural population, reflecting only a minimal change in proportionate share in the

Table 4.1 General Indicators of Development, 1946-1988

	Yug.	Slov.	Croat.	Vojv.	Serb.	Mont.	B&H	Mace.	Kos.*
GDP per capita (in 100s dinars)									
1955	46	81	57	43	42	36	39	32	20
1988	168	821	216	200	170	125	114	106	46
Personal income per worker (in 100s dinars)									
1950	39	44	42	38	40	38	37	36	34
1988	4,727	7,194	5,142	4,529	4,280	3,457	3,981	3,211	3,141
Employees per 1,000 population									
1955	126	216	150	124	111	113	11	99	52
1988	292	443	347	313	298	263	244	254	125
Employees in industry per 1,000 population									
1955	69	148	82	56	55	37	65	42	34
1988	177	301	186	180	183	126	158	158	80
Investment per capita									
1955	1,163	2,123	1,131	491	1,211	2,295	1,129	1,082	369
1987	3,391	7,480	3,769	3,425	3,766	2,594	2,490	1,602	1,345
Radios (in 1,000s)									
1946	198	34	77	28	40	1	9	8	2
1987	4,772	624	1,076	556	1,189	84	754	351	138
Television (in 1,000s)									
1960	30	5	11	4	8	0.2	2	0.3	0.1
1987	4,089	473	962	508	1,007	78	629	313	118

\* For the sake of comparison, I have ranked the republics and provinces according to their designation by the federal government, according to degree of underdevelopment (as reflected by GDP per capita).

Sources: Savezni zavod za statisticku, SFRJ. Statisticki godisnjak SFRJ 1989. 1990: 418-419;  
Statisticki godisnjak SFRJ 1918-1988. 1989

agricultural sector. However, the existence of large agricultural populations in a region did not necessarily directly relate with high GDP in the agricultural sector. For example, by 1988 Slovenia had 4 percent of Yugoslavia's agricultural population, yet its agricultural GDP was over 9 percent of the Yugoslav total GDP in that sector. There were also higher unemployment rates in less-developed regions, which increased rather than decreased with time. In 1955, Kosovo had 5 percent of Yugoslavia's population and 4 percent of total unemployment. By 1988, Kosovo had grown to 9 percent of Yugoslavia's population, while its unemployment tripled to 12 percent of Yugoslavia's total. The less-developed areas also participated less in the international market. In 1988 Serbia's population was



several times that of Slovenia, but Slovenia engaged in 27 percent of Yugoslavia's exports (and 22 percent of imports), compared to Serbia's 23 percent of exports (and 20 percent of imports).

Table 4.2 Percentage Share in General Indicators of Development, 1955-1988

	Yug.	Slov.	Croat.	Vojv.	Serb.	Mont.	B&H	Mace.	Kos.
Territory	100	7.9	22.1	8.4	21.9	5.4	20.0	10.1	4.2
Population									
1953	100	8.8	23.2	10.0	26.3	2.5	16.7	7.7	4.8
1988	100	8.2	19.9	8.7	24.8	2.7	18.8	8.9	8.7
Active population									
1953	100	9.0	23.8	9.9	29.8	1.9	15.4	6.8	3.4
1981	100	9.8	21.2	9.2	30.1	2.1	15.9	8.0	3.7
Agricultural population									
1953	100	5.9	21.4	10.4	29.0	2.5	17.2	7.9	5.7
1981	100	4.0	15.6	9.2	35.4	1.8	16.0	9.2	8.9
People looking for jobs									
1955	100	35.9	14.3	10.2	21.9	1.4	8.9	14.3	3.8
1988	100	1.9	11.9	8.0	27.5	3.8	22.7	12.4	11.8
GDP in industry									
1953	100	25.0	29.3	8.3	19.2	0.7	11.9	3.6	1.9
1988	100	17.6	21.9	9.9	25.5	1.7	14.5	6.7	2.2
GDP in agriculture									
1953	100	7.3	23.7	15.1	29.5	1.7	13.5	6.1	3.1
1988	100	9.1	22.4	18.8	25.6	1.7	11.8	6.6	4.0
Exports									
1988	100	25.6	20.7	1.6	22.9	2.0	13.9	5.2	8.0
Imports									
1988	100	21.6	24.3	10.7	20.3	1.4	11.0	6.5	1.3

Source: Savezni zavod za statistiku SFRJ. *Statisticki godisnjak SFRJ 1989*. 1990: 418

By 1988, Slovenia's GDP in industry was almost nine times that of Kosovo. In 1988, Vojvodina had 8 percent of the population and yet had 10,215 million dinars (610 million U.S. dollars) of GDP in agriculture. By contrast, Bosnia and Hercegovina composed 19 percent of total Yugoslav population and had a GDP value in agriculture of only 6,375 million dinars (381 million U.S. dollars). In other sectors, wide disparities were also

Table 4.3 GDP by Sector, 1988 (in mil. dinars, 1972 prices)

	Slov.	Croat.	Vojv.	Serb.	Mont.	B&H	Mace.	Kos.
Total economy	66,328	100,911	41,080	99,094	7,899	50,598	22,073	8,644
Industry	31,072	38,640	17,549	45,104	2,940	25,670	11,771	3,876
Trade	10,188	14,913	5,646	15,511	1,062	6,648	2,907	989
Construction	6,484	6,466	2,349	7,280	483	3,261	991	512
Trans & comm	5,794	14,653	2,430	8,390	1,602	3,552	1,006	508
Agriculture	4,939	12,103	10,215	13,843	912	6,375	3,575	2,154
Artisans	3,245	3,775	974	2,152	61	1,559	385	166
Tourism	1,796	4,799	474	1,640	408	1,026	320	158
Forestry	505	1,226	132	287	143	939	189	39
Water economy	160	190	238	302	2	127	144	34
City Infrastructure	210	507	181	540	70	152	151	22
Other	1,934	3,637	892	4,043	216	1,290	633	186

Source: Savezni zavod za statistiku, SFRJ. Statisticki godisnjak SFRJ 1989, 1990

present: in 1988, Slovenia had over 10 times GDP in trade as Kosovo, trade which benefitted Slovenia through the acquisition of hard currency and diffusion of technology. In tourism (another valuable source of hard currency), Croatia alone earned almost half the total GDP in Yugoslavia in 1988.

There were also wide variations within republics and provinces in terms of population count, territorial size, and economic structure. As Seroka (1989: 135) notes: "some communes have as much as 80 percent of their labour force involved in agricultural production, and others have none, Some communes have less than five percent of their total gross product derived from industry, and others have over 70 percent coming from industrial sources." This in turn influenced the levels of development among communes (See Figures 4.1 and 4.2). For example, in 1984, many mountainous communes in Bosnia and Hercegovina had per capita GNP's of less than 100,000 dinars, compared to more than 410,000 dinars in Sarajevo. The tendency for urban areas to have per capita GNP's several times higher than less accessible mountainous and interior areas was duplicated in each of the republics and provinces. This disparity was closely related to levels of industrialization in each commune; the most obvious concentration of this sector was in major urban areas.

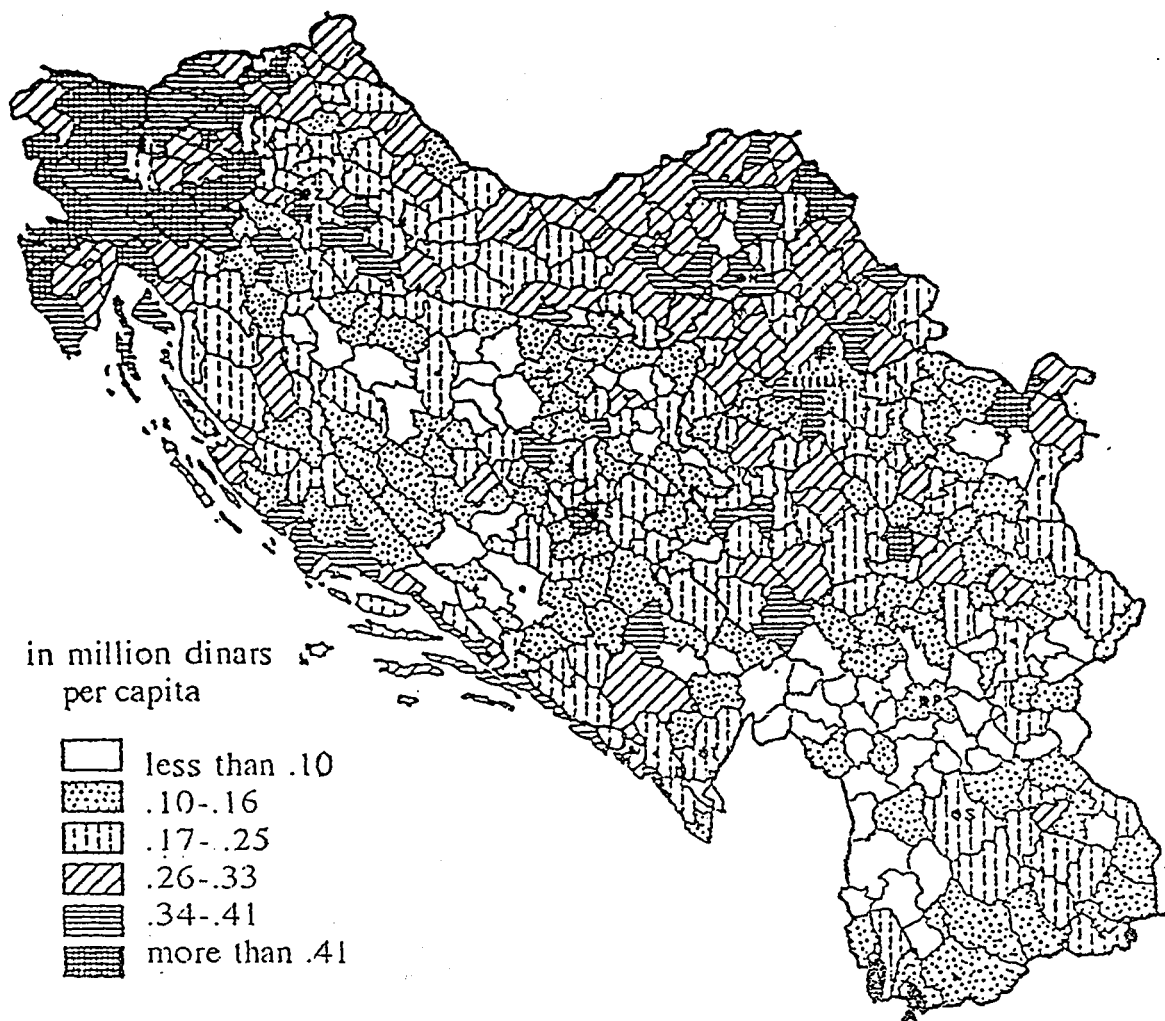


Figure 4.1 GNP per capita by Commune, 1984  
Modified from the original in Pak 1989: 238

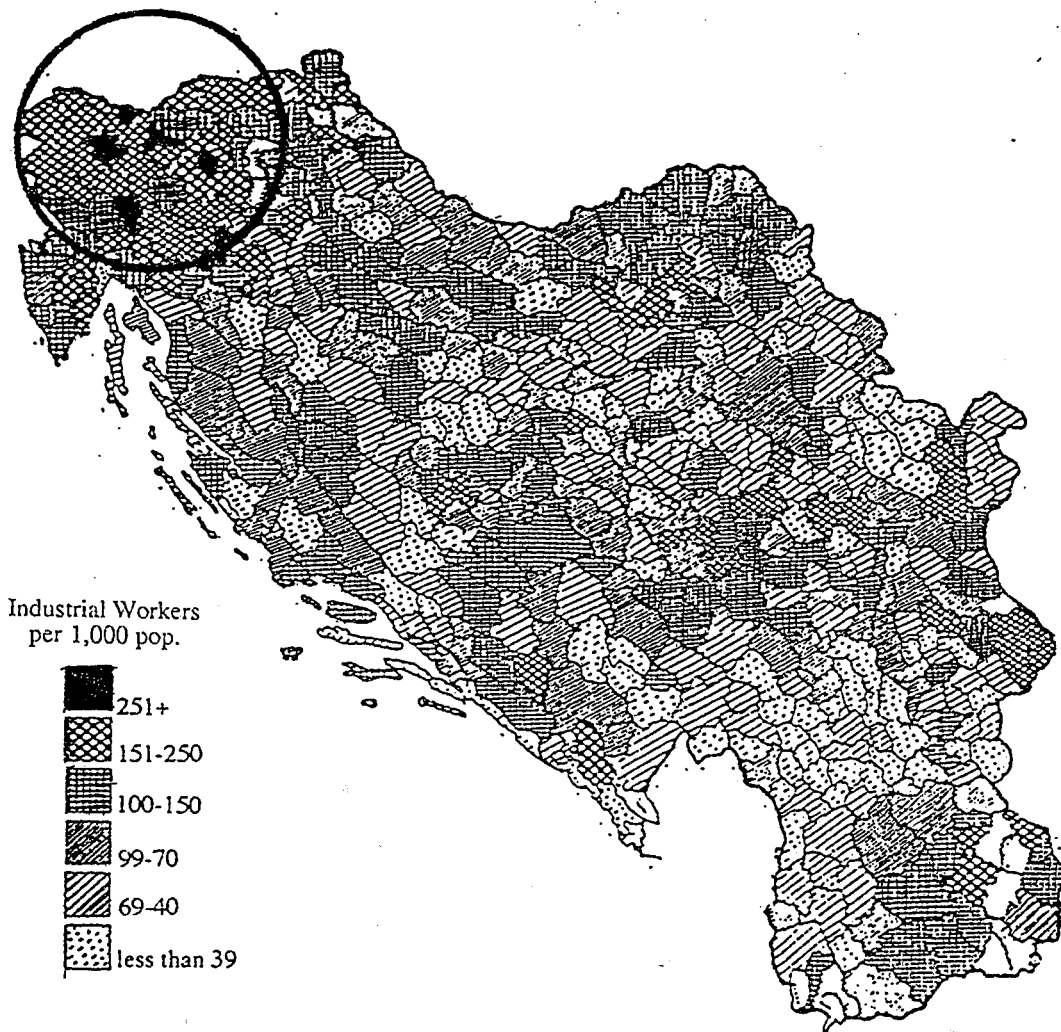


Figure 4.2 Classification of Communes by Degree of  
Industrialization 1981  
Modified from the original in Feletar 1989: 221

After presenting a portion of my numerical information, I believe it is appropriate to make a methodological note, the justification of which will lead back into my principal arguments: Much of this thesis relies on information and statistics which refer to administrative regions -- particularly the Yugoslav republics and provinces. It could be argued that there are limits to the analysis of these formal (administrative) regions, given the fact that there is also diversity and disparity in levels of development within these regions (particularly between urban and less-accessible rural areas). Moreover, it could also be argued that an examination of functional regions (in which there is a transcendence of administrative boundaries through economic interaction) or territorially-based regions (where social interaction transcends formal lines) would be more useful in the study of Yugoslav regional development. There are various levels of functional economic difference and inequality in Yugoslavia -- for example, Slovenia and Kosovo (inter-republican), Sarajevo and its hinterland (urban/rural), the Dalmatian coast and the Croatian rural interior communes of Lika, Banjija, and Kordun (intra-republican) -- and I certainly do not intend to ignore these. Moreover, the formal republican territorial units of Yugoslavia, despite claims of internal unity of nationalities, were not only divided according to rural and urban areas and development levels, but also according to social lines (See Figure 4.3).<sup>14</sup>

Much of this thesis focuses on inter-republican differences and disparities (as reflected by my chosen units for the statistical data). I offer the following justification for this: firstly, any available statistical data are categorized according to formal (primarily republican) boundaries -- information and data on the commune level (also formal) are extremely

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<sup>14</sup> A minority of Slovenes populate the Istrian region of Croatia. A pocket of Croatians reside in the western areas of Vojvodina (Backa and Syrmia). Bosnian Muslims, unimpeded by language barriers, migrated to Serbia along the Bosnian border, as well as to Belgrade and northern Montenegro. Macedonians spilled over to southern Serbia and Montenegrins spread to Serbia and Bosnia. The Hungarians and Serbs balance each other in Vojvodina, while Serbs are spread all over Bosnia-Herzegovina, Macedonia, Montenegro, and the Baranya and Slavonian regions of Croatia, having fled Kosovo more recently.

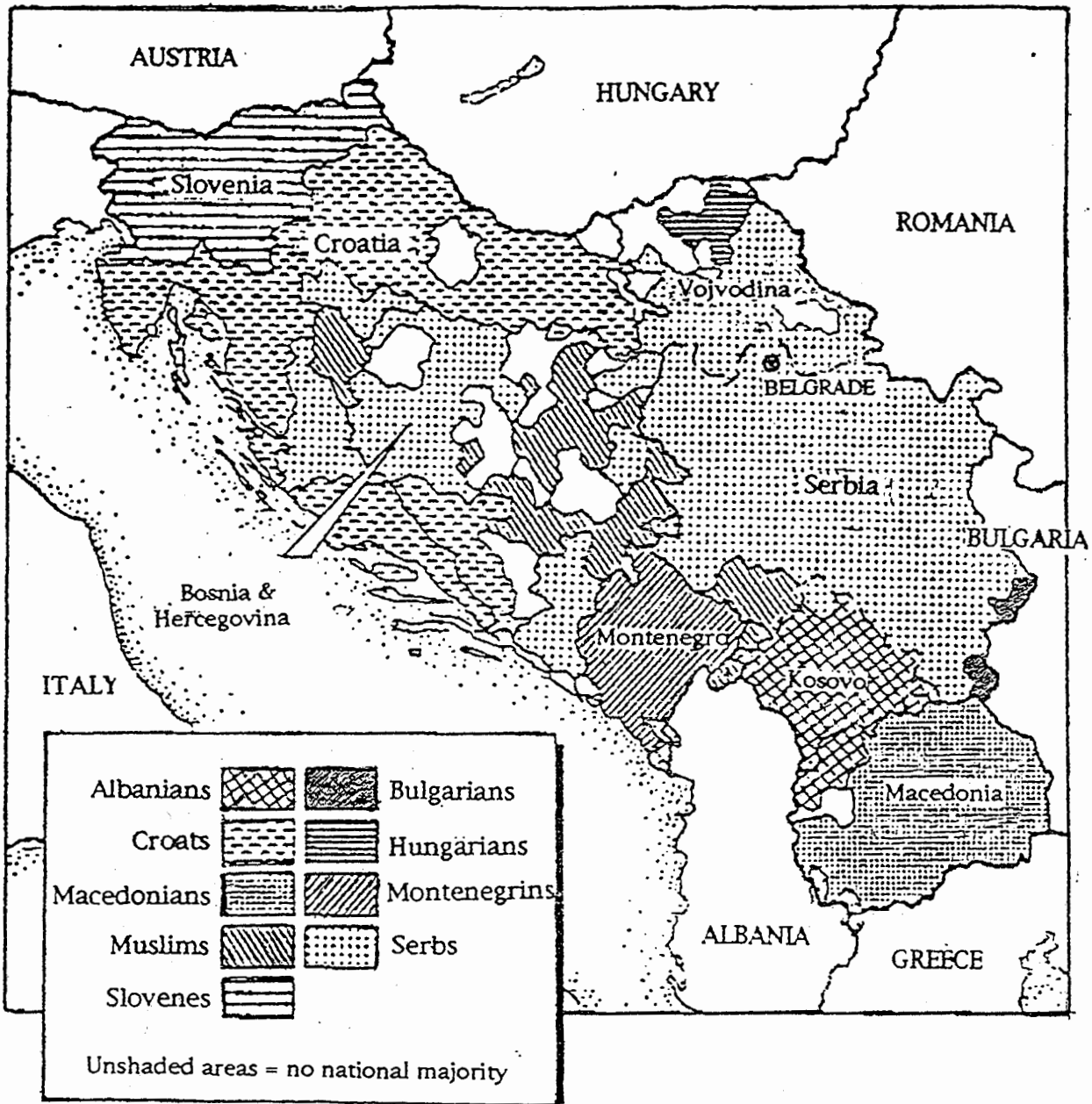


Figure 4.3 Areas in which a Major Nationality Composes the Majority of the Population (based on 1981 census)

Modified from the original in Englefield 1992: 12

limited, particularly for a historical analysis in which early pre-war or post-war information is required but unavailable. Information and statistics are available to some degree from the mid-1960s, but only a few variables are considered (e.g. population count) given the extreme detail and extensiveness required for some 1,103 (in 1959) to 553 (in 1989) opstine (communes, or counties). As these last numbers indicate, the quantity of communes has decreased with boundaries changing and enlarging in the past few decades, making it impossible to use this information for a coherent analysis of intra-republican difference and disparity. Furthermore, while some limited data exist on individual cities, there is no such corresponding information on the hinterlands of the cities.

Secondly, I argue that while territorially-based regions (such as the interaction of members of a particular ethnic groups often transcending republican and provincial administrative boundaries) may have existed to some extent in the early period of Yugoslav socialist development, the eventual devolution of power to the republican and provincial level resulted in a separation of these social regions, not only in economic and political terms, but also in social fragmentation. For example, despite the fact that Croatian and Bosnian Serbs share an ethnic and religious heritage with the Serbs of Serbia proper, the former are no longer able to identify with Serbia to the extent that they became a part of their particular local area (e.g. Krajina). Thus, ethnic interaction was somewhat limited by formal (particularly republican and provincial) boundaries. Furthermore, not only was decision-making power concentrated primarily in the hands of republican elites (as opposed to federal or local), but also federal and local investments were controlled by republican administrations, despite the myth of self-management participatory democracy.

I also argue the following: the formal boundaries of the socialist republics and provinces were outlined according to political reasons (e.g. the "intended" division of the Serbs<sup>15</sup> to prevent their dominance with formal boundaries between Serbia, and Serb-populated Bosnia and Hercegovina, Montenegro, Vojvodina, Kosovo, and Macedonia). With this in mind, it is possible to see that with uniformly applied reforms (in which the greatest amount of power was given to republican administration), territorial interrelationships within and among republics (such as the interaction of ethnic groups separated by administrative lines) were increasingly isolated from each other or, at worst, divided. Thus, territorially-based regions eventually coincided with political boundaries. As public expressions of nationalism were suppressed, this republican isolation eventually resulted in an explosion of expression during the civil war, when ethnic groups separated from their respective "motherlands" felt threatened by the separatism of the majority ethnic group of their republic. An extreme case is that of the Serbs of Krajina and other Croatian counties with a Serbian majority who, though isolated administratively from other Serbs, suddenly burst out with an expression of their own ethnicity when Croatian nationalist sentiment (similarly suppressed under the Communist system) arose and manifested itself in an effort to secede. This eventual expression of functional relationships reflects the tendency for Communist bureaucrats (whether federal, republican, or communal) to ignore the persistence of functional regions -- and of social factors in general -- as well as the folly of formally dividing these regions, and uniformly applying blanket policies or reforms.<sup>16</sup>

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<sup>15</sup> Or, as some (e.g. Plestina 1987) may argue, this act was oriented towards the appeasement of the Serbs: by placing the provinces of Vojvodina and Kosovo under Serbian jurisdiction, despite large populations of Hungarians and Albanians, respectively.

<sup>16</sup> For an example at the communal level, according to Seroka (1989: 136): "Yugoslavia's leaders have imposed an extremely well-articulated and very precise institutional framework for all communes. Throughout the country, communes share a nearly identical institutional structure, regardless of their needs and capabilities. . . . The decentralized structure of the institutions has resulted in the domination of the communal political system by individuals or enterprises in homogenous communes, or the inability for decision-makers in internally diverse communes to come to a consensus in the absence of regulation of pluralist interests (most of which were concentrated in the hands of the few). This domination of the many by the few has limited the expression of local particularities through the political system."



The preceding discussion has been a rather unidimensional consideration of the way the socialist model was imposed on Yugoslavia's regional diversity (and how this resulted in social horizontal fragmentation and explosion). The following part of this section will attempt to assess the direct efforts of the state to reduce regional vertical inequalities in light of its structural constraints (i.e. decentralized centralization) as well as less visible influences on regional development, such as those associated with contradictory government policies, market forces and qualitative social differences. All the aforementioned factors lacked adequate or effective consideration by the Yugoslav government (and its socialist model in general).

#### **4.5.1 Force of Convergence: Efforts to Ameliorate Regional Disparity**

The Communist government claimed full awareness of the need for equality among nations and nationalities (Devetak 1988), which required not only equal political representation, but also equal levels of economic development. Yugoslav decision-makers were concerned that without state regulation, market reforms would disadvantage the less-developed areas as they would be unable to compete with regions that had advantages such as a wealthier market area to purchase their goods, better infrastructure and services, or greater labour productivity. Thus, development funds were created specifically for the task of accelerating the growth of less-developed areas.

The development of less-developed areas was supported firstly by the General Investment Fund, followed by its replacement (in 1965), the Federal Fund. Funds were distributed in the form of grants and loans on favourable terms (with low or no interest or longer

repayment periods). For example, from 1966-1970, loans were awarded "on favourable terms at 2.1 percent interest and repayable over a period of 19.5 years with a grace period of three years" (Kurpojevic 1985: 45). The Federal Fund was distinguished from the General Investment Fund by the fact that in the former, these loans were used by the less-developed republics, provinces, or communes according to their respective regional government directives, rather than those of either the central government (as in the General Investment Fund) or other republics which donated the investment (Tyson 1980).

In addition to direct financing of the less-developed areas, the less-developed regions received other benefits initiated by the federal government. The less-developed areas were prioritized for the allocation of international aid (e.g. from the World Bank); indirect state measures to stimulate development including tax, credit, and customs relief (Kurpojevic 1985); and (theoretically) the pooling of labour and technology (Djurdjevic 1985). The less-developed regions were also financially supported by direct grants from the federal government and the ceding of annuities.

In order to take advantage of these funds or benefits, a region first had to be declared a lesser-developed area, a status which might change over time. From 1952--1956 Bosnia, Montenegro and Macedonia enjoyed the benefits of such favourable treatment. From 1957-1962, Bosnia lost that status while Kosovo gained it. From 1962-1965, Montenegro, Kosovo, and parts of Bosnia, Croatia, and Serbia gained less-developed status, and from 1966 onward Bosnia, Kosovo, Macedonia, and Montenegro garnered the financial "benefits" of loans and grants from the Federal Fund, due to their designation as less-developed areas. In addition, the amount of aid allotted to each region was determined by government assessment of the degree of underdevelopment of the area (Kurpojevic 1985) (See Tables 4.4 and 4.5). Thus, only Montenegro, Bosnia and Hercegovina, Macedonia,

Table 4.4 Assets of the Federal Fund to Finance Economic Development in the Less-developed Republics and Provinces, 1966-1988 (selected years)

	Financial Sources				Distribution of Funds			
	1966	1971	1981	1988	1966	1971	1981	1988
Financial Sources								
Total Yugoslavia	1,167	2,001	28,894	1,761,369	871	1,954	28,773	1,754,698
More-developed Regions	--							
Slovenia	--	346	5,685	354,023				
Croatia	--	554	7,500	429,481				
Vojvodina	--	210	2,445	119,230				
Serbia	--	474	6684	459,807				
Less-developed Regions								
Montenegro	--	40	942	28,558	114	254	2,846	126,116
Bosnia & Hercegovina	--	238	3302	234,526	273	596	9,439	373,722
Macedonia	--	104	1,886	97,799	224	510	5,999	286,842
Kosovo	--	34	481	37945	259	595	10,488	968,018

Source: Savezni zavod za statisticku SFRJ. Statisticki godisnjak 1918-1988, 1989: 507

and Kosovo received aid. Because of Kosovo's status as the most underdeveloped area, Kosovo received aid (about 30 and 33 percent each of the total allocated to the less-developed republics) which was comparable in quantity to the aid received by more-populated Bosnia and Hercegovina. By 1976 and continuing through the 1980s, Kosovo received the lion's (37 to 42 percent) share of total aid.

Table 4.5 Allocation of the Federal Fund in the Less-developed Regions, 1966-1985  
(in percentage)

	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>	<u>1981-1985</u>
Montenegro	13.1	11.4	10.8	9.9
Bosnia & Hercegovina	30.7	32.4	30.6	27.9
Macedonia	26.2	22.9	21.6	19.6
Kosovo	30.0	33.3	37.0	42.6

Sources: 1966-1975, Ramet 1984: 191- 202; 1976-1985, Mladenovic 1982: 3-22

Investment was channeled into Montenegro, Macedonia, Kosovo, and Bosnia and Hercegovina through the federal redistribution of national taxes (mostly from funds that were collected in Slovenia, Croatia, and Vojvodina). The administrations of the less-developed republics were eventually given exclusive control of the allocations and also eventually waived repayment of federal loans (Schrenk, et al 1979). Communes also received subsidization from their respective republican and autonomous province budgets following reforms (Raicevic and Popovic 1990). With continued decentralization reforms, the loans eventually went to organizations of associated labour in the less-developed areas (which, however, given the nature of the decentralized system, were nevertheless dominated by regional bureaucrats).

The fund itself, as well as the foreign aid, was a double-edged sword. Many problems were evident in the distributing of funds which were ultimately controlled by republican and provincial elites. The federal government did inject considerable investment in less-

developed areas. But the Yugoslav state seems to have mistaken the quantity of investment as equivalent to productive output. Due to the decentralized centralist structure of the politico-economic system, the funds were often invested in a way that was not optimal for less-developed areas. Given the guarantee of government subsidization, much of the funding was funneled by regional bureaucrats into non-productive, non-reproducing areas (such as personal incomes) and did not contribute to the efficiency and competitiveness of industries, which became especially important when the role of the market increased in later years. In addition, the automatic subsidization of the enterprises in the less-developed regions gave producers and labour little incentive for more efficient production (Schrenk, et al 1979).

In short, the less-developed republics and Kosovo became overwhelmingly dependent on the Federal Fund as a source of investment (See Table 4.6). For the period of 1981-1984, 66 percent of Kosovo's investment came from the Federal Fund, in contrast to 41 percent in the period from 1966-1970. Among the less-developed regions, only Montenegro became less dependent on the Federal Fund, from 25 percent of investment in 1966-1970, to 17 percent in 1981-1984. As for foreign aid, those areas receiving such aid had "imposed upon them large financial obligations owing to the increased value of the dollar, higher interest rates, and other international economic conditions which have not favoured

Table 4.6 Federal Fund as a Percentage of Total Investment, 1966-1984

	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>	<u>1981-1984</u>
Montenegro	25.3	20.2	18.1	16.8
Bosnia & Hercegovina	11.2	10.3	10.5	11.3
Macedonia	17.5	19.2	17.3	21.7
Kosovo	41.1	52.6	49.4	65.9
Average	18.2	18.1	18.1	21.7

Sources: Savezni zavod za statisticku, SFRJ. Statisticki godisnjak SFRJ 1986. 1987: Tables 107.1 and 201.14, and Statisticki godisnjak SFRJ 1979. 1980: Table 107.1

the underdeveloped and developing [regions]" (Kurpojevic 1985). Underdeveloped regions soon found themselves over their heads in foreign debt relative to the trade-oriented northern regions.

#### **4.5.2 Forces of Divergence in Yugoslav Regional Development**

Other government policies were also not consistent with efforts to balance regional development levels. Such policies included the constraints imposed on certain types of investment (such as agriculture) by strict government regulation and lack of "free" market competition, through unfavourable pricing, customs, and exchange rates. These policies were interwoven with not only factors associated with social and regional differences, but also with market forces that had been strengthened as a result of decentralization and market reforms -- thus, with the very structure of the model itself.

There are several areas of government intervention that tended to contribute to the ineffectiveness of direct measures to address regional disparities through redistribution. Firstly, absolute amounts of government allocation of investment tended to favour the more-developed republics and provinces, despite the Federal Fund<sup>17</sup> (See Table 4.7). From 1952-1959, the more-developed regions received 71 percent of total Yugoslav investment. In the period of 1980-1986, 72 percent of investment was made in more-developed region. Secondly, investment was skewed in favour of the industrial sector,

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<sup>17</sup> Schrenk, et al (1979: 308) play down the effectiveness of measures aimed at developing the less-developed regions: "other measures intended to reduce regional disparities include reduced import duties, preferential access to foreign exchange, selective credits by the national bank system, preferential participation in institutional borrowing abroad, and tax preferences to foreign partners in joint ventures. Compared with interregional transfers, their effect has probably been marginal."

leading to the inevitable result of underdevelopment of rural/agricultural areas or communes relative to urbanized communes.

Table 4.7 Total Investment in Social and Private Sectors by Republic and Province, 1952-1986 (in percentage)

	1952-1959	1960-1969	1970-1979	1980-1986
Total Yugoslavia	100	100	100	100
More-developed Regions				
Slovenia	14.4	12.3	15.4	14.4
Croatia	23.0	24.6	24.4	24.4
Vojvodina	6.3	8.1	9.8	10.0
Serbia	27.6	27.0	22.4	23.0
Less-developed Regions				
Montenegro	4.1	2.9	2.9	3.4
Bosnia & Hercegovina	16.0	12.9	15.5	15.3
Macedonia	6.6	8.5	6.2	5.5
Kosovo	2.0	3.2	3.4	4.0

Source: Savezni zavod za statisticku, SFRJ. *Statisticki godisnjak SFRJ 1918-1988*, 1989: 125

Thirdly, investment in less-developed areas tended to be in less profitable heavy industry and did not utilize the surplus of unskilled labour in these regions, due to the capital-intensiveness of heavy industry. Fourthly, government policies of pricing and customs (which, as I indicated in the previous section on decentralization/centralization, continued to persist despite reforms) tended to benefit light industry over heavy industry, the latter which was predominant in less-developed regions. Fifthly, government policies tended to be biased in favour of the social sector of agriculture which predominated in more-developed areas, as opposed to the more traditional private agricultural sector of southern Yugoslavia.

It was expected that in a reformed system of market socialism, the government would still be able to sustain its control over investment, pricing, customs, and the like. Indeed, state control over some areas was maintained, but as I explained in earlier sections of this

chapter, the Yugoslav system was full of internal contradictions, such as the simultaneous existence of biased and inefficient government controls alongside disequilibrating market forces. In Yugoslavia, the results of government policies were, of course, dependent to a greater extent than in most socialist countries on the operation of the market in a system of decentralized centralization, which seemed only to accentuate the natural tendencies of the market. Thus, during the market socialist period, less-developed regions were faced not only with the inefficiencies of planned economies (e.g. shortages and inefficient allocation of resources according to political criteria), but also with a number of different market forces embedded in the market socialist system, many of which interfered in their development. These factors included enterprise and bureaucratic monopolization, the fragmentation of markets at the republican level, the inability of subsidized industries to compete successfully on the market, the intractiveness of underdeveloped regions to capital, the inability of agriculture and raw materials industry to compete on an international market in which the terms of trade were skewed in favour of finished goods, and self-interested economic activity in an informal sector. The simultaneous existence of disequilibrating market forces, and government policies which contradicted efforts to ameliorate regional disparities, can be seen in the unique case of Yugoslav market socialism, which was distinguished by its interaction with the West (e.g. development of the tourist sector, and the migration of guestworkers to the West).

In addition, the interaction of Yugoslavia with the West illustrate that both state and market forces influenced and were influenced by social factors such as cultural closeness of certain ethnic groups with the West (which stimulated market interaction), high rates of natural increase among certain ethnic groups which strained their regional economy and the social safety net, high cultural heterogeneity (and thus greater ethnic tension and limited cooperation) in some administrative regions, and inter-ethnic rivalries and ethnic insecurity



which contributed to irrational investments and tended to limit interaction with other groups that might have improved their economic status.

In the first part of the ensuing discussion on the role of the state in contributing to unbalanced growth, I will examine the investment decisions of the federal government (eventually coopted by the republican bureaucrats). While investment decisions in self-management were theoretically made by workers through social funds at each level of the federation (local, republican, federal), the majority of investment (81 percent in 1958) was initially allocated by the federal government through the General Investment Fund (Chittle 1977) (see Table 4.8). In 1957, for example, over 70 percent of investment was allocated according to the directives of the federal government. However, it is possible to see that when decentralization reforms were implemented, investment allocations were increasingly made by enterprises (work organizations) and banks (see Table 4.9). By 1972, the federal

Table 4.8 Distribution of Investment Funds, 1957, by Level of Government  
(in percentage)

	Assets %	Utilization %
General Investment Fund (federal)	65.7	71.2
Republican investment funds	10.6	7.9
Local investment funds	23.7	20.9

Source: Modified from the original in Macesich 1964: 125

Table 4.9 Sources of Finance of Investment in the Social Sector, 1952-1972  
(in percentage)

	1952	1953	1954	1955	1960	1962	1964	1966	1968	1970	1972
Social funds & budgets (federal)	98	87	74	64	52	59	36	16	16	16	19
Work organizations (repub.)	2	13	26	35	37	38	32	46	37	33	38
Banks (republican)	-	-	-	1	1	3	32	39	47	51	43

Sources: Savezni zavod za statisticku SFRJ. *Statisticki godisnjak SFRJ* 1973. 1974: 213,  
Modified from the original in Chittle 1977: 37

government allocated 19 percent of investment, compared to 98 percent in 1952. The banks and enterprises which gained greater control of funds were dominated by regional (especially republican) Party bureaucrats who often made decisions based on ideology or politics, rather than what was most suitable for the investment region. For example, regardless of comparative advantage, republican politicians yearned for the positive attention that could be gained through an illusion of regional self-sufficiency that was in practice unsustainable.<sup>18</sup>

Given the bias of the central government towards capital-intensive industries, incentives in the form of investment subsidies prompted the less-developed republics to remain specialized in heavy industrial production (Schrenk, et al 1979) (See Tables 4.10 and 4.11). A number of authors observed the regional specialization of heavy industry in less-developed areas and light industry in more-developed areas: "the bulk of . . . resources allocated to the underdeveloped republics and Kosovo on the basis of a loan still go to finance the construction of capital-intensive projects (power generation, the metal-working industry, mining, etc.), while manufacturing facilities still account for only a small share" (Djurdjevic 1985: 33). Chittle (1985: 63) provides another example: "more than 52 percent of the industrial investment in the [less-developed regions] during 1952-1969 was in the four industries of coal mining, ferrous and non-ferrous metals and non-metallic

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<sup>18</sup> Seroka (1988: 133) provides a useful example of investment inefficiency based on bureaucrats' perception of regional (or more specifically, ethnic) need, in a "huge Fina ferrous-nickel processing plant in Macedonia which never achieved full production and was shut down in 1985 before it was fully completed. . . [T]he plant was located far from natural supplies of raw materials, lacked adequate transportation routes to export markets, was constructed on the basis of obsolete design plans, possessed an insufficiently trained labour force, and provided a product for which there was already a world surplus. The construction of the FINA plant was motivated largely by status considerations within the commune and republic. Its location was heavily influenced by political rather than economic factors, and it received foreign currency allocations on the principle of republic parity rather than net return on investment. For all practical purposes, FINA was a political, not an economic enterprise."

minerals as compared to only 30 percent in the [more-developed regions]." <sup>19</sup> Given the fact that the focus of Yugoslav economic policy changed from that of an emphasis on heavy industry to consumer goods (Golubovic 1986), the emphasis on heavy industrial investment would prove to be disastrous to the less-developed areas.

Table 4.10 Investments in Light Industry by Region 1970-1985  
(selected years\*, in bil. current dinars)

	Yug.	Slov.	Croat.	Vojv.	Serb.	Mont.	B&H	Mace.	Kos.
<b>1970</b>									
Total industry	8.89	1.38	2.00	0.79	2.80	0.08	1.17	1.38	0.29
Light industry	2.80	0.55	0.64	0.42	0.51	0.03	0.31	0.13	0.04
% Light industry	31	40	32	53	18	37	26	35	14
<b>1975</b>									
Total industry	65.0	14.5	13.0	6.3	10.7	2.2	11.4	4.4	2.6
Light industry	19.1	5.0	4.2	1.7	2.6	0.4	3.3	1.2	0.8
% Light industry	29	34	32	27	24	18	29	27	31
<b>1980</b>									
Total industry	200.9	27.2	39.2	20.4	42.3	6.2	37.0	15.6	12.9
Light industry	40.3	5.7	8.2	6.1	8.4	0.8	6.4	2.1	1.8
% Light industry	20	21	21	30	20	13	17	13	14
<b>1985</b>									
Total industry	1,044	143	176	96	336	20	193	35	45
Light industry	226	37	33	24	67	7	31	12	10
% Light industry	22	26	19	225	20	35	16	34	22

\* Information for the years prior to 1970 does not differentiate between Serbia and the provinces of Vojvodina and Kosovo.

Source: Savezni zavod za statistiku, SFRJ, Statisticki Godisnjak SFRJ 1972, 1973: 480;

Statisticki Godisnjak SFRJ 1977, 1978: 503; Statisticki Godisnjak SFRJ 1982, 1983: 480, 497;

Statisticki Godisnjak SFRJ 1989 1990: 503

<sup>19</sup> The division of production between more-developed North and less-developed South persisted into the 1980s with "considerably greater share of the primary sector (energy, food, and raw materials) in the social product (43.6 [percent] in 1970 and 41.8 [percent] in 1985) of the lesser developed regions compared to the share of this sector in the developed regions and in the economy of Yugoslavia as a whole. . . . In addition, the secondary sector processing part of industry, the construction industry and the production in part of skilled crafts (which made up 30.8 [percent] of the social product of the lesser developed regions in 1985) had a considerably smaller share of processing branches in the secondary sector of the developed regions and in the overall Yugoslav economy" (Miric 1988: 56).

Table 4.11 GDP in Light Industry by Region , 1960-1988 (in bil. current dinars)

	<u>Yug.</u>	<u>Slov.</u>	<u>Croat.</u>	<u>Vojv.</u>	<u>Serb.</u>	<u>Mont.</u>	<u>B&amp;H</u>	<u>Mace.</u>	<u>Kos.</u>
1960									
Total industry									
(old dinars)	1,170	242	325	82	277	12	173	40	82
Light industry	459	102	136	42	85	4	61	26	3
% Light industry	39	42	42	51	31	33	35	65	16
1965									
Total industry									
(new dinars)	27.9	5.3	7.8	2.1	6.6	0.5	3.8	1.2	0.6
Light industry	11.3	2.1	3.4	1.0	2.3	0.2	1.3	0.7	0.2
% Light industry	40	40	44	48	35	40	34	58	33
1970									
Total industry	54.2	11.1	14.4	4.9	12.8	0.9	6.8	2.4	1.1
Light industry	21.4	4.2	5.7	2.3	4.6	0.3	2.3	1.3	.3
% Light industry	39	38	40	47	36	33	34	54	27
1975									
Total industry	166.9	32.0	42.4	16.8	37.9	2.4	22.8	8.9	3.6
Light industry	69.5	13.4	18.4	8.5	14.4	.8	8.3	4.0	1.3
% Light industry	42	42	43	51	38	33	36	45	36
1980									
Total industry	593.2	116.8	142.2	58.3	141.8	10.7	78.0	32.5	12.7
Light industry	208.1	41.8	52.3	26.7	42.2	2.1	21.5	14.2	4.9
% Light industry	34	36	37	46	30	20	28	44	39
1985									
Total industry	5,148	1,028	1,158	502	1,204	98	736	301	122
Light industry	1,782	361	427	222	367	18	208	137	40
% Light industry	33	35	37	44	30	18	28	45	33
1988									
Total industry	72,653	16,016	15,969	7,431	16,285	1,295	9,637	4,443	1,575
Light industry	27,165	5,953	6,145	3,993	5,340	255	3,153	2,029	468
% Light industry	37	37	38	54	33	20	33	46	30

Sources: Savezni zavod za statisticku, SFRJ. Statisticki Godisnjak SFRJ 1962. 1963: 345; Statisticki Godisnjak SFRJ 1964. 1965: 363; Statisticki Godisnjak SFRJ 1972. 1973: 375; Statisticki Godisnjak SFRJ 1977. 1978: 409; Statisticki Godisnjak SFRJ 1982. 1983: 463; Statisticki Godisnjak SFRJ 1987. 1988: 474; Statisticki Godisnjak SFRJ 1989. 1990: 486

Many authors (such as Hamilton 1968) are quick to criticize the investment decision of the Yugoslav bureaucracy to emphasize primary activities in less-developed regions: "the low effectiveness of investments and the use of public funds lowered the interest of the developed regions' economy to invest in energy and raw material capacities. The greatest share of resources from the Federal Fund and other funds to stimulate faster development of these regions was actually investment in branches of the primary sector which had

extremely negative results on the overall development of these regions" (Miric 1988: 57). Ramet (1985: 8) goes on to indicate why heavy industrial investment in less-developed regions was such a problem: "Yugoslav decision-makers seriously miscalculated by funneling development funds in Macedonia and Kosovo into capital-intensive projects and extractive industries, rather than into labour-intensive ones, and thus failed to make any headway toward alleviating the unemployment problem in the [S]outh."

These statements reflect the reality that investment in heavy industry was often unprofitable for a number of reasons. Firstly, the initial overwhelming national prioritization of heavy industry led to structural imbalances: production in the primary sector was not proportional to processing capacity, thus resulting in bottlenecks and shortages of finished products for the less-developed areas (Miric 1988: 43). Regions specializing in heavy industries had a limited market for their products locally and nationally, simply because there was so much heavy industrial production throughout the country.

Secondly, as in the command period, heavy industrial products were also squeezed by lower pricing (See Table 4.12). For example, depending on the period, "prices of agricultural products, primary commodities and other industrial materials, serially-produced equipment, major industrial consumer goods, power, and transport services were formed under directly [state] influence, while prices of other goods and services were largely formed under the influence of supply and demand" (Vasic 1988: 165-166). Only in the period from 1952-1959 did the prices for crude materials increase greater than that of finished goods, which actually decreased in price. From 1980-1988, the increase in prices lagged at 85 percent of that of finished goods, a trend of imbalance in pricing which predominated since 1960.

Table 4.12 Average Yearly Increase of Prices\*, 1952-1988

	1952-1959	1960-1969	1970-1979	1980-1988
Crude materials	1.16	1.87	9.83	54.90
Finished goods	-1.23	4.62	12.54	63.96

\* These figures were computed according to a chain index in which the previous year = 100.

Source: Savezni zavod za statistiku, SFRJ. Statisticki Godisnjak SFRJ 1918-1988, 1989: 154

Marsenic (1973: 145) claims that pricing was not such a great disadvantage for less-developed regions: "in the socialist sector of the economy branches subject to price controls were partly compensated for through investment credits or grants-in-aid received from central federal and republican investment funds." But pricing itself was not a self-contained disadvantage of heavy industrial specialization -- it prompted a chain reaction of disadvantages for less-developed areas. Price controls not only constrained the GDP of the regions in which heavy industrial projects were located, but also discouraged further investment in those sectors in the market, from both domestic and foreign investors, because larger profits could be gained in sectors which produced highly-priced products. As most of the restricted heavy industries and raw materials production was located in less-developed area unattractive to capital on the market, the less-developed regions became increasingly dependent on the Federal Fund.

Thirdly, the government's foreign trade regulations and policies also tended to favour light industry, by the protection of light industrial products through tariffs, and a favourable exchange rate for light industry. For example, "tariff rates ranged up to 60 percent [in 1961], with the higher rates applying to consumer goods. The average rate for [finished] goods was 34 percent and for semi-finished and raw materials 10 percent" (Chittle 1977: 31) (See Tables 4.13 and 4.14). In 1964, tariff rates for primary materials were only 28 percent of tariffs on consumer goods. Chittle notes a similar tendency in 1965, when "the

average tariff rates on raw materials, semi-finished products, capital goods, and consumer goods were 5, 9, 20, and 21 percent, respectively" (Chittle 1977: 34). In foreign exchange, industry received 1,059 dinars per dollar in foreign exchange, greater than other sectors

Table 4.13 Average Import Charges (tariffs) by Major Product Group, 1964

	<u>Proportion in total imports</u>	<u>Avg. customs charges in %</u>
Total	100	23.29
Primary commodities	35	12.14
Industrial materials	36	17.19
Equipment	24	42.79
Consumer goods	5	43.96

Modified from the original in Domandzic 1966: 3485-3488

Table 4.14 Effective Exchange Rates, 1957

<u>Exports</u>	<u>Effective Exchange rate (dinars per US \$)</u>	<u>Imports</u>	<u>Effective exchange rate (dinars per US \$)</u>
Industry	1,059	Raw materials	
Agriculture	655	& semi-manufactures	766
Forestry	675	Consumer goods	1,612
Services	620	Food	568
All	858	Capital goods	617
		Services	508
		All	719

Modified from the original in Chittle 1977: 29, Table 9

including agriculture, which received 655 dinars per dollar. In industry, raw materials and semi-manufactures received only 48 percent of the effective exchange of consumer goods, while food and capital goods lagged at 35 and 38 percent, respectively.

This imbalance in tariffs and exchange rates was designed to support domestic light industry. Heavy industrial projects eventually lost their domestic market, as relatively

unconstrained importation of raw materials grew under lower exchange and tariffs (See Table 4.15). Imports of raw materials and other primary sector products grew from 53 percent of total Yugoslav imports in the period 1952-1959, to 77 percent in the period 1980-1986. By contrast, from 1980-1986, exports of consumer goods composed 32 percent of total Yugoslav exports, while imports of consumer goods composed only 7 percent of total imports, reflecting a trade surplus for regions specialized in light industry.

Table 4.15 Average Yearly Export and Import by Use of Product\*, 1952-1986 (in percentage)

	<u>1952-1959</u>	<u>1960-1969</u>	<u>1970-1979</u>	<u>1980-1986</u>
<b>Exports</b>				
Total Yugoslavia	100	100	100	100
Reproduction goods	52.8	45.2	52.5	51.1
Capital goods	5.1	14.3	16.2	17.2
Consumer goods	42.1	40.5	31.3	31.7
<b>Imports</b>				
Total Yugoslavia	100	100	100	100
Reproduction goods	52.9	57.8	64.1	77.1
Capital goods	19.6	23.4	22.8	16.3
Consumer goods	27.5	18.8	13.1	6.6

\* Reproduction goods = crude materials and semi-products, mineral fuels, and manufactured goods for reproduction.

Capital goods = machinery, electric motors and equipment, and transport equipment.

Consumer goods = food, beverages and tobacco, clothing and footwear, furniture, textiles, medicinal, pharmaceutical and cosmetic products, and other consumer goods.

Source: Savezni zavod za statistiku SFRJ. Statisticki godisnjak SFRJ 1918-1988. 1989: 306

This imbalance was exacerbated by the fragmentation of the domestic market, as the republics preferred to trade locally or internationally, rather than with other republics (Bookman 1990). For example, Bookman's (1990) study of republican trade patterns has indicated that Slovenia has been able to acquire its raw materials from local or international sources, rather than from other republics. Slovenia expanded its trade in order to take advantage of the large Western markets and in order to gain hard currency.



The previous few paragraphs explained the disparity between regions specializing in heavy industry and those specializing in light industry. Let us now turn to the effects of the prioritization of the urban/industrial sector over the rural/agricultural sector and how this influenced inter-republican disparities. It is important to remember that even the more-developed republics and province of Vojvodina had underdeveloped agricultural areas within their respective territories. Not only did the federal government give little assistance to these areas, but also the republican governments did not succeed in promoting internally balanced growth. Instead, republican administrations continued to focus on internal specialization during the reform period, particularly in one central city in each republic (Neal 1958). Neal (1958: 328) further notes that: "seven cities had 44 [percent] of all industrial enterprises in 1958, and the total number of enterprises increased only 16 [percent] between 1954 and 1958. Zagreb, with 118 industrial enterprises, and Belgrade with 117, employing 53,289 and 58,714 persons respectively (as of March 1958), had the heaviest concentrations. They were followed by Ljubljana, Novi Sad, Sarajevo, Skoplje, and Maribor." The predictable result was the deskilling of labour in rural areas through migration to major cities (Zaninovitch 1968).

The Yugoslav government had already damaged the agricultural sector through its stringent policies (collectivization and land reforms) during the First Five-year Plan. The agricultural sector had also been disadvantaged under low pricing policies and lack of tariff protection of domestic food production. However, since 1955, agricultural pricing improved (Schrenk, et al 1979), and the agricultural sector was released from plan-imposed compulsory quotas -- "the private peasants were left to produce what they could and to sell their surpluses on the open market, the state interfering only by setting the levels of taxation and controlling the prices of some foodstuffs" (Singleton and Carter 1982: 129).

The benefits of a relaxed agricultural policy did not accrue to all regions uniformly, however. Tyson (1980) points out the differences between the large self-managed enterprises of the socialized sector of agriculture (primarily located in Vojvodina and Croatia) and the small traditional private farms which overwhelmingly compose the agricultural sector of less-developed areas. While the socialized sector tended to account for considerably less cultivated land area, employees, social product, and marketed deliveries than the private sector, labour productivity was considerably higher than that of private producers due to the fact that it was more capital-intensive. As a result, incomes for those employed in the social sector were considerably higher, while much of private agriculture was used for subsistence.

In addition, the social sector of agriculture received the overwhelming majority of investment allocated to the agricultural sector, reflecting bureaucratic bias towards this sector (Pavlowitch 1971) (See Table 4.16). From 1952 to 1978, the social sector gained an average of 60 percent of the total investment in agriculture, despite the fact that most of the agricultural population worked in the private sector. This was certainly beneficial to the social sector: "state policies provided special treatment for credits in agriculture, thus enabling the social sector to annually invest more than the previous GNP in this sector. This was the beginning of the creation of capital-intensive agriculture in the socialist sector, with high yields and productivity" (Stepetic 1982:190).

Though the drive towards collectivization was aborted relatively early, more subtle attempts were made by the central government to draw private peasants into dependence on the social sector: most of the private sector remained squeezed onto small landholdings (10 hectares maximum that had been established during the command system period) and

Table 4.16 Investment in Agriculture, 1952-1978

	1952- 1956	1957- 1961	1962- 1966	1967- 1971	1972- 1976	1977- 1978
Investment in agriculture (as % of GNP of agriculture)						
Total	12.1	19.1	13.4	11.1	12.3	18.7
Social	68.1	129.0	50.3	33.1	25.9	38.5
Private	5.7	4.4	2.7	2.3	3.1	3.0
Investment in agriculture (as % of total national investment)						
Total	11.1	14.9	10.2	6.7	6.4	6.0
Social	5.4	10.5	7.5	4.4	3.3	3.0
Private	5.7	4.4	2.7	2.3	3.1	3.0
Structure of agricultural investment (total =100)						
Social	48	70	74	66	52	49
Private	52	30	26	34	48	51

Source: Institute for Investment Economics, Investment in Yugoslavia 1947-1966, 1968; Investment in Yugoslavia 1947-1973, 1976; Savezni zavod za statisticku, Statisticki godisnjak SFRJ, various issues, 1975-80, 1976-80; Modified from the original in Stepetic 1982: 191, Table 9.

private farmers had limited access to loans and were barred from the purchase of large agricultural machinery and tractors. This effectively limited large-scale production for private farmers (Miller 1989). Furthermore, the unfavourable pricing of agricultural products did not change following decentralization reforms -- the regulations were simply transferred to the republican and local levels.

The contradictory structure of the polycentric system of Yugoslavia was directly reflected in agriculture. On the one hand, direct central measures (e.g. low pricing, restricted sales) limited the potential market efficiency of agriculture. On the other hand, market reforms designed to rectify these problems tended to foster bureaucratic monopolization: the socialized political and economic structure (the "socialist cooperation") upon which the private farmers were dependent (for farm service, technical input, supply, credit, and guaranteed purchase of produce) "abused its monopoly position shamelessly to exploit the

peasants" (Miller 1989: 505). As this quote indicates, the "cooperative" agricultural organization of the social sector often abused this position to the point that they began to be referred to as "socialist latifundias" (Miller 1989: 529). The decentralized structure of the Yugoslav system, coupled with the tendency for bureaucratic dominance by a few, did not allow the private peasantry to be adequately represented. Thus, the growth of the private sector lagged behind the social sector. For example, "over the period 1955-76, the average growth rate of output in the social sector was about 10 percent per annum; the corresponding growth rate for private agriculture was only about 2 percent" (Tyson 1980: 71). The only apparent relief for private farmers was the flourishing of the illegal trade in agricultural produce in the informal sector.

This unequal treatment of the private and social sectors of agriculture was particularly important in terms of inter-republican differentials. The highest level of socialization and the largest property sizes existed by the 1980s in Vojvodina, and to a lesser extent in Macedonia and the Slavonia region of Croatia. More-developed areas, particularly Slovenia, had the added advantage of capital-intensiveness and more efficient use of machinery (Miller 1989). "The bulk of social sector output . . . [came] from the [more-developed regions], where in general the best quality land [was] located. In the [less-developed regions], the social sector . . . had trouble implanting itself, and private farms [were] particularly backward, with a much lower utilization of tractors and fertilizers than the [more-developed regions]" (Tyson 1980: 72). As Tyson notes, performance in the agricultural sector of the less-developed areas was lower than that of more-developed areas. More backward peasant farmers in the less-developed republics and Kosovo had difficulty adjusting to non-traditional cooperative agriculture, and continued to use primitive and less-productive methods of agricultural cultivation (such as low use of mineral fertilizers) (Tyson 1980; Djurdjevic 1985).

The previous paragraphs indicate that government actions were not effective in dealing with social factors and regional diversity, or in balancing regional disparity (which in many ways actually widened). It is important to emphasize, however, that as the market also was operating to some extent in the Yugoslav form of market socialism, it also had some effects on regional disparity; the market clearly operated in favour of the more-developed regions. The high-risk, low-return less-developed regions, although injected with federal funds, did not benefit from foreign investment as much as the more-developed republics. Despite the federal transfers, the fact remained that both domestic and foreign investment was overwhelmingly attracted to the more-developed republics (See Table 4.17). For example, from 1968-1977, Slovenia and Croatia received 63 percent of total foreign investment in Yugoslavia. The more-developed republics themselves were unwilling to invest in the less-developed republics voluntarily. In addition, as the primary sector of less-developed areas was limited in its ability to export, it could not gain the added advantage of acquisition of hard currency. This made it more difficult for the less-developed regions to repay the foreign debt which they had accumulated. Further downward spiraling resulted from environmental destruction caused by the inability of less-developed areas to invest in much-needed protection of the environment (Markovic 1990).

Table 4.17 Distribution of Foreign Investment, 1968-1977

	<u>In millions dinars</u>	<u>Percentage</u>
Total Yugoslavia	5,821	100
Slovenia	1,021	18
Croatia	2,632	45
Vojvodina	390	7
Serbia	876	15
Montenegro	171	3
Bosnia & Hercegovina	588	10
Macedonia	125	2
Kosovo	18	0.3

Source: Dragomanovic 1978: 37; Modified from the original in Cichock, 1985: 220, Table 3

Not only capital but also labour was drawn to more-developed areas: the labour market was characterized by the deskilling of rural and less-developed communes and republics and the agricultural sector. The greatest potential of the population of less-developed areas was attracted to the higher wages and living conditions of the cities and the northern republics (Plestina 1987), leaving underdeveloped regions and the agricultural sector with an older and less-educated population. The low labour productivity of the latter population groups fed into downward circular and cumulative causation and lower development (Vasic 1988).

I have already explained the role of contradictory government policies intertwined with disequilibrating market forces. A primary emphasis of this thesis is the role of social factors in regional diversity and regional development in Yugoslavia. Thus, the final dimension of my interpretation of the processes behind the polarization of regions in Yugoslavia is a return to the recurring theme of the historic inability of socialist politico-economic models to interact with social factors in the interests of both efficiency and equality. The Communists imposed a decentralized centralist model on a multinational society that was already socially divided (even though the ethnic regions were forced economically and politically to "integrate" -- however ineffectively -- under the command system). In turn, the regional diversity of Yugoslavia was further accentuated by the differential ability of the various ethnic groups to adapt to the Communist imperative of industrialization.

In the context of this regional ethnic diversity and disparity, when the politico-economic system fragmented under market socialism, the pattern of regional development was also affected. Social factors influenced this process in two main ways. Firstly, the ethnic division of social groups was deepened by decentralization, contributing to lack of

coordination among regions and irrational use of funds. Secondly, some attributes of the social groups, such as differential birth rates, had an influence on not only distinguishing one social group from another, but also on levels of disparity. For example, high natural increase strained employment and physical and social infrastructure of regions, especially in predominantly Muslim regions such as Kosovo, and some parts of Bosnia and Hercegovina.

Ethnic rivalry, based in a decision-making structure that awarded power to the leaders of ethnically-delineated republics and provinces, had a central role in the (mis)use of federal funds, a central reason behind the ineffectiveness of investment in the less-developed regions: the less-developed republics were unwilling to accept direction from more-developed republics for the more productive use of the funds for fear of domination. As Cichock (1985: 219) states: "political animosities [were] motivated by the ethnic conflicts that pervade[d] the country (Croatian-Serbian; Montenegrin-Albanian). Thus, developmental solutions proposed by one ethnic group for use by another [were] staunchly resisted by the intended user." Therefore, unfortunately, under the decentralized system less-developed republics lacked guidance in the effective investment of federal funds and often invested unwisely, contributing to regional stagnation.

Ethnic rivalries had a role in shaping the form of development that regional bureaucrats eventually chose following the decentralization reforms. Republican elites often echoed the development preferences of the federal government, which included an emphasis on capital-intensive industry, regardless of the need for employment in the region. According to Cichock (1985: 221), "the underdeveloped regions [were] not inclined to plan for labour-intensive projects as they perceive[d] this to be a strategy of the developed regions to maintain economic dominance over them. At the same time, the developed regions

consider[ed] labour-intensive projects as the only sound, rational utilization of the resources immediately at the disposal of underdeveloped areas." The more-developed republics eventually became increasingly dissatisfied with the siphoning off of revenue which they saw as wasted in non-productive projects such as those devoted to the maintenance of cultural identity. Because of the very decentralized nature of the political system in Yugoslavia, enterprises of more-developed republics also had little incentive initially to invest in less-developed republics where the central enterprise would have no control over its subsidiary .

Perhaps this problem of ethnic differences and divisions contributing to disparity could have been avoided had the federal government assumed a greater controlling position. However, while the state demanded control of investment funds, it did not take responsibility for investing these funds efficiently. Cichock (1985: 217) wrote of this problem:

"The federal government does not seem to have advised the republics on which policies to pursue. This has proven to be somewhat harmful to the lesser-developed areas of the country, particularly Kosovo, Macedonia, and Montenegro. These areas have traditionally resisted attempts by the two most economically advanced republics, Slovenia and Croatia, to direct or assist their development. The most frequently cited examples of unnecessary developmental projects are sports stadiums and luxury conference centers constructed in the poorer areas that have added little to the areas' productive capabilities and detract from capital-intensive projects."

It is my contention that the polarization of regions in Yugoslavia was influenced in part by the ethnic conflict which arose in all its ugliness through a system which first totally suppressed ethnicity, and then only gave it expression through the manipulative actions of regional elites. Let us, for a moment, assume away the inter-republican conflicts, and consider the initial regional development policy imposed by the central government. An important question concerning such policy is: would the less-developed regions have been in a better position had the Yugoslav state released regulation on heavy industry and



allowed free market competition to encourage enterprise efficiency, while simultaneously redistributing funds to develop social and physical infrastructure in the less-developed republics? In my interpretation, even if this scenario had occurred, by the end of the Second World War, Yugoslav cultures differed widely in their ability to adapt to a government-sponsored drive towards industrialization. Cultures that adapted more quickly were favoured in terms of future economic development under socialism. Thus, social factors were of particular importance to the inadequacy of the socialist strategy in balancing the regional development of Yugoslavia, not only in terms of the problems associated with regional fragmentation arising from ethnic conflict and decentralization reforms, but also in terms of the characteristics of certain ethnic groups at that time.

For the Yugoslav case, the most important example of this is that even though there was considerable economic growth in less-developed republics and Kosovo, high population growth (2.4 percent in Kosovo from 1956-1988) in these regions tended to dilute the benefits that may have arisen with this growth (See Table 4.18). It has been argued that one of the primary reasons for the failure of investment in Kosovo lay simply in the inability of funds to match and overtake the population growth of the Albanians in the province. High natural increase was associated with the Muslim and agrarian culture characteristic of Kosovo, as well as Bosnia and Hercegovina (1.2 percent increase) and Macedonia (1.3 percent increase).

Macedonia, Kosovo, and Bosnia and Hercegovina have Muslim populations which have historically been characterized by large families, lower education of women and employment of women in "non-productive" areas. Despite national social security and welfare programs (which perhaps were not sufficiently funded or equally suitable for all

Table 4.18 Average Yearly Rate of Growth, 1956-1988

	Yugo- slavia	Slov.	Croat.	Vojv.	Serb.	Bosn. & Herc.	Kos.	Mace.	Mont.
Population	0.9	0.7	0.5	0.5	0.7	1.2	2.4	1.3	1.1
Workers	2.9	2.9	3.2	3.2	3.7	3.6	5.1	4.1	3.7
GDP									
Total	4.9	5.2	4.6	5.3	5.1	4.6	5.1	5.1	5.0
Per capita	4.0	4.5	4.8	4.8	4.3	3.3	2.6	4.1	3.9
Net wages per worker	1.4	1.2	1.3	2.4	1.5	0.1	1.1	0.1	0.2
Transportation phys. amount	6.3	6.7	5.9	6.7	5.8	5.0	12.7	8.0	15.9
Growth of GDP on 100 dinar econ investment									
1961-1970	26.8	35.4	28.7	30.3	25.7	23.3	17.0	21.6	16.6
1971-1987	14.1	16.2	13.4	13.8	15.4	12.8	9.2	14.9	9.7

Source: Savezni zavod za statisticku, SFRJ. Statisticki Godisnjak SFRJ 1989. 1990: 420-421

Yugoslav groups), the people of these regions did not shift into the practice of having small families (Devetakovic 1989). As death rates declined with better medical care and higher standards of living, birth rates remained high, especially in Kosovo. This may, in part, be associated with the poverty of large rural populations in these regions and the inability of modern philosophies and practices to diffuse there, but also can be attributed to more deeply-ingrained social differences of ethnicity and religion.

High population growth led to the increase in the number of young, unskilled workers. This problem was made even more pressing by the fact that few jobs were provided in the capital-intensive primary industries which had been set up in the less-developed regions under the command system. High unemployment in less-developed republics eventually prompted the deskilling of these regions, as many more educated or highly qualified people migrated to the urban areas of the more-developed republics, thereby giving further momentum to the downward spiral of their home region.

Population growth was a significant social factor which the central government did not award sufficient attention. No measures of population control were attempted or even discussed.<sup>20</sup> An effort to ameliorate the problems of high population growth could have been made through the encouragement of migration of unskilled labour from less-developed to more-developed areas. However, the more-developed regions were unwilling to take on such a challenge. This is primarily attributable to ethnic antagonisms (Schrenk, et al 1979). While in Yugoslavia, I clearly saw ethnic prejudice against, for example, Albanian or Macedonian workers in Slovenia. Ramet (1985: 10) also notes this tendency: "in Slovenia, the steady influx of non-Slovenes (especially where Albanians are concerned) has increasingly been viewed as a threat to the preservation of Slovenian language and cultural distinctiveness. In every republic in Yugoslavia today there are groups who feel threatened either culturally-demographically or economically, or both; the situation is most acute in Kosovo." While interfering in some ways (e.g. the development of heavy industry in less-developed republics), the government chose to ignore pressing social factors which eventually limited the ability of the less-developed republics to make any progress in catching up to the more-developed republics.<sup>21</sup> Considering the problems (such as population pressures) of Yugoslavia, programs needed to be established that would fit diverse cultural traditions.

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<sup>20</sup> Among the people I spoke to in the northern republics of Yugoslavia, the "Kosovars" (Albanians in Kosovo) themselves were awarded much of the blame for their own lack of development, as they did not restrain their population growth. If I were so naive as to ask why measures to control birth rates were not implemented, I would receive a snort of derision and some comment relating to (if they were Serb) the "fact" that Tito intended to let the Albanians multiply so as to weaken the Serbs, or that the political system became so decentralized and the ethnic tensions so great that no one dares suggest anything that sounded remotely like an infringing on ethnic rights.

<sup>21</sup> But, as Tyson (1980: 62) points out: "even without differences in regional population growth rates, approximately equal rates of growth of social product in the [more-developed regions] and [less-developed regions] over most of the postwar period would not have produced any dramatic reductions in regional inequality, at least as measured by regional income levels."

Population growth was not the only factor which seemed to be tied to cultural differences. For example, according to Cichock (1985: 221) the inability of Kosovan industry to catch up is attributable not only to external factors such as foreign debt, unfavourable sectoral policies, and misallocation of investment, but also to poor labour productivity (including skills of workers and the level of labour utilization) (See Table 4.19). For example, in 1988, GDP per employee in Kosovo was only 47 percent of Slovenia. Other republics such as Macedonia, Bosnia and Hercegovina, and Montenegro had similarly low GDP per employee. In effect, the data reflect Cichock's (1985: 224) assertion: "resources are being used in much greater quantities in the underdeveloped areas than in the developed areas to produce the same commodity." Low labour productivity has been associated with social populations in which an efficient work ethic and efficient managerial class never developed, particularly among the predominantly Muslim southern republics. This low managerial efficiency prompted one Serb to comment that while modern industrial installations were built in Kosovo, backwards "medieval" management of these installations was a central problem contributing to underdevelopment of some regions. This was particularly important for the less-developed areas because patterns of centrally-funded capital-intensive production in those areas required maintenance of equipment. But labour and management in less-developed regions were unable to supply this maintenance (Cichock 1985).

Table 4.19 Labour Productivity, 1988, and Efficiency of Equipment, 1971-1987

	<u>Yug.</u>	<u>Slov.</u>	<u>Croat.</u>	<u>Vojv.</u>	<u>Serb.</u>	<u>Mont.</u>	<u>B&amp;H</u>	<u>Mace.</u>	<u>Kos.</u>
GDP of the socialised sector per employee (in 100s dinars 1972 prices)									
1988	621	863	678	673	610	534	474	450	394
Growth of GDP on 100 dinars of investment									
1961-1970	26.8	35.4	28.7	30.3	25.7	16.6	23.3	21.6	17.0
1971-1987	14.1	16.2	13.4	13.8	15.4	9.7	12.8	14.9	9.2

Source: Savezni zavod za statisticku, SFRJ. Statisticki godisnjak SFRJ 1988. 1989:421

The last few paragraphs on social factors were meant to illustrate the tendency of the socialist models to iron over important influences on the process and pattern of regional development. I make no claims that the Islamic religion, for example, in its essence is totally unsuited for adaption to an industrially-based form of development. But I do want to stress that had the federal government been more sensitive to the differences, for example, between Slovene and Albanian workers, and shaped its policies accordingly, regional divisions and disparities might not be so stark.

The unhealthy (in terms of regional disparity) intertwining of government policy and market and social forces can also be seen in Yugoslavia's unique form of market socialism, which included significant interaction with the West. A special note must be given to disparities between regions which were related to social difference, market profitability, and government emphasis on international trade (which I have already touched on), the tourist sector, as well as the temporary outmigration of Yugoslav workers to the West -- activities which occurred in different ways in various regions. During the command period, trade and service sectors were constrained by government policy, which emphasized "production" (Allcock 1991). Yugoslavia differed from this typical Eastern European picture, as it embarked on market socialist reforms early in the socialist period, and turned to the West not only for purposes of trade, but also for the servicing of Western tourists, a growing source of hard currency income. During the market socialist period, some regions (especially Slovenia and Croatia), pursued their greater comparative advantages in trade and/or services, sectors which were relatively free (e.g. free pricing) from government constraint, and experienced prosperity under Yugoslav market socialism. For example, Slovenia and Croatia were prepared, both socially and economically, to trade with the West. Slovenia and Croatia were more Westernized (from the long period of Austrian rule), and had a tradition of business interaction with Western Europe (especially under the

Austrians). Their position in Yugoslavia as more-developed industrial regions left them at an advantage in competing for Western markets.

The government had a role in promoting the prosperity of the service sector in the more-developed areas. With increasing interaction with the West, the need for foreign tourism was acknowledged by the federal government in the 1960s, when policies favouring the development of this sector were implemented (e.g. credit supports). Service industries, including catering, transportation, and communication earned foreign currency and stimulated employment and the development of infrastructure in the regions in which this sector was concentrated. The Communist government emphasized those areas that had comparative advantages for tourism -- selected mountainous areas, spas, and especially the Croatian Adriatic coast (Markovic 1988: 89): predominantly the urban areas.<sup>22</sup> Through government stimulation of tourism in selected areas, a policy of specialization in comparative advantages was pursued, in Croatia, Slovenia, and a number of urban areas in Yugoslavia. In short, the service sector of the more-developed regions was privatized and free to compete (at an advantage) under market socialism, and yet simultaneously received government aid (unlike the private agricultural sector). Less-developed regions not only did not have the capital to build accommodations and promote tourism on the market, but they also did not receive government stimulation for their service sectors or acquire adequate federal funding (i.e. through the Federal Fund) to compensate for their inferior position on the market .

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<sup>22</sup> Croatia in particular benefitted from the infrastructural development of the Dalmatian coast, and local coastal towns benefitted from the gaining of hard currency. For 25 years, over one half of the overnight stays of tourists in Yugoslavia was on the Adriatic coast (Markovic 1988: 83).

The primary reason behind the prosperity of the service sector, especially in Croatia, was not only attributable to government stimulation, but also to market forces and social forces which were intertwined with the political structure. With the relaxation of pricing, services were forced to compete with each other, stimulating the efficiency of this sector, and the regions in which this sector predominated (i.e. the Dalmatian coast) (Allcock 1991: 241). This market competition was based in the politico-economic structure of market socialism in Yugoslavia: decentralization had a role in shaping the pattern of service sector development. With the decentralized-centralist politico-economic system of later years, regions became increasingly autarchic in their pursuit of development of tourism -- isolationist self-interest and monopolization that the federal government was unable to control, especially given ethnic antagonisms. Because the early politico-economic system was top-down, there could be no voice from the less-developed regions to develop according to their own capabilities and needs, rather than the heavy industrial priority imposed on them. In later years, when the system fragmented, the elites of the less-developed regions accepted government allocations for heavy industry, without thought for future efficiency.

Another factor which differentiated Yugoslavia from other Eastern European countries was worker migration from Yugoslavia to the West, which became a substantial development force beginning in the 1960s. Yugoslavs working abroad relieved regional unemployment, sent foreign remittances to their families in Yugoslavia, and also returned to Yugoslavia with valuable hard currency which they injected into the local economies. In addition, workers who eventually returned to Yugoslavia contributed to the development of their regions through the job experience and professional and technical skills they had gained in the West. The importance of the "gast-arbeiters" in regional terms lay in the fact that labour mobility across Yugoslav regions was not uniform. Croats formed the overwhelming majority of temporary workers: in 1971, one-third of the total Yugoslav workers abroad

were Croats (Bancic 1971: 6). In Kosovo, where problems of unemployment were the greatest, there was the lowest rate of external migration among the republics and provinces. This could be attributed to the lack of skills among much of the population, greater physical distance from Western employment opportunities, and traditional cultural mores which emphasized the family and restricted the mobility of individuals. Thus, both market disadvantages and social factors contributed to the regional process of widening disparities which arose under seemingly indiscriminant government policy of allowing (and also placing) Yugoslav workers abroad.

The preceding paragraphs have illustrated the forces which can contribute to widening of disparities through the unfavourable intertwining of government policies, market forces, and social difference, which came about in Yugoslavia because of the insensitivity of the Yugoslav model to regional difference. An example of the sensitivity that is necessary for non-contradictory Yugoslav strategy might consist of the following: new technologies could be introduced more slowly in order to mediate the transition from labour-intensive to capital-intensive production with an eye towards the fact that there may be a lag in the adoption of supporting mentalities, work ethics, and ways of life (e.g. small families, mobility). For example, instead of simply trying to utilize and develop a less-developed place or region through the common method of exploitation of raw materials, the Yugoslav government should have been more aware of how this strategy would affect particular groups of people. Ultimately the government destroyed the agricultural base of less-developed regions and then did not stimulate labour-intensive industries in the interests of employment of the resulting surplus labour. An obvious and necessary aspect of more flexible policy would be that it needs to be focused on enabling of the local population (and not simply local elites) to establish the type of production and path of development which would be most suitable to the needs and capabilities of its particular region.



The insensitivity of the Communist government was in large part based on its very structure as a centralized, bureaucratic entity (whether at the federal, republican and provincial, or commune level). While attempting to divorce themselves from their regional and ethnic roots, the Yugoslav Communists discovered that the regional socialist strategy under market socialism (following the strict command strategy) also paved the way for the eventual explosion of national sentiment. Bookman (1990: 106) gives an ominous prediction: "currently, political and national issues outweigh economic considerations. In fact, given the current status of relationships among ethnic groups (articulated on the republican level), it is unlikely that anything short of a major unifying event would be capable of redressing the effects of some 15 years of increasing regionalization."

#### 4.6 Conclusion

Brus (1989) points to two different currents of opinion among Yugoslavs (not necessarily among professional analysts) as to the failure of Yugoslav market socialism. Some maintain that there was a need for a much greater role for the market than was ever allowed in the Yugoslav system. The opinion to which I find myself gravitating does not put such great faith in market forces, but rather criticizes the form of market socialism in Yugoslavia.

As Brus (1989: 93-94) so eloquently summarizes:

"By shifting the responsibility for expanded reproduction to enterprises, they moved from the one-sidedness of the early postwar administrative system, which excluded the market from the production sphere altogether, to another one-sidedness of excluding the plan altogether. . . . Overloading the market . . . inevitably leads to the necessity for corrective administrative intervention, which however cannot restore the lost systemic equilibrium and results in the 'neither market nor plan' chaos. Under the special Yugoslav circumstances,<sup>23</sup> planning at the federal level [became] the main

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<sup>23</sup> My emphasis added.

victim of the attempt at excessive marketization, which makes the administrative backlash most effective at the level of the republics and autonomous regions, with all the ensuing bad consequences of fragmentation of the economy."

Here, Brus is acknowledging that the diversity of Yugoslavia had a role in the failure of a system which places too much confidence in regional elites and the imposition of universalizing reforms.

Yugoslav regional policy, mediated through the politico-economic structure, was characterized by a number of effects. Firstly, the Yugoslav plan was not able to regulate in a decentralized system where each region pursues its own self-interest. And the plan continued to interfere in the coordinating ability of the market. Ultimately, the plan/market encouraged the pursuit of illegal market activities and monopolization. Those regions which had an initial advantage were prioritized by the planners, and also received greater investment from entrepreneurs, foreign investors, and other market actors. Decentralization reforms resulted in the devolution of power to regional heads, as well as increased inter-regional competition leading to a lack of coordination and cooperation. Deep regional separation, prompted by decentralization reforms and ethnic rivalries, had an influence on the irrational utilization of resources and the duplication of projects. Moreover, the federal government was no longer able to play a major role in coordinating policies and programs among the regions, or in forcing more inter-regional cooperation. This was especially difficult for less-developed regions, which were neither competitive politically nor on the market, and did not have a buffer of higher living standards.

Because the structure of the Yugoslav market socialist system was still rigidly controlled by regional elites, local particularities of place could not be expressed through the political system in a regional strategy which might have been more suited to the development of each different region. The actual regional strategy of the Yugoslav market socialist system

consisted of a prolonged emphasis on heavy industry in the less-developed regions, coupled with a stress on light industry in the more-developed northern areas. This strategy was carried out by regional and enterprise heads, who were often already established when these market-oriented reforms began. This was detrimental to regions specialized in heavy industry for the following reasons: light industry was uncommon, and thus enjoyed high domestic demand for its products, while heavy industry had experienced too much investment and production relative to demand. Prices were kept low for the products of the latter sector, while tariff structures protected light industry's products and allowed it to import primary materials cheaply. Thus, domestic and foreign investors were more interested in light industrial projects that would be more profitable. The agricultural sector, especially in less-developed areas, was squeezed by the development strategy under market socialism: the social sector more prevalent in more-developed regions received favoured treatment relative to the private sector, which predominated in the less-developed southern regions. Neither did this biased treatment against agriculture address the disparities between rural and urban communes. In terms of market competition, both capital and labour were more attracted to the more-developed regions of the North, as well as urban areas, which became reflected in low investment levels and a steady deskilling of labour in the southern regions and rural areas. Both market and social forces, as well as state policies were slanted in favour of the international activity of certain regions. Not only trade, but also the service sector grew in the more-developed regions during the command period, given the greater social connection of these regions with the West. More-developed regions benefitted not only from greater market competitiveness of their service sector after privatization and freeing of prices, but also from government stimulation of tourism in their regions. In addition, outmigration of temporary workers predominantly came from the more-developed regions (given greater social and economic mobility), who, when they returned, contributed to skilling and gaining of hard currency for their regions.

The last part of my discussion of regional strategy was a return to social factors, and how they affected or were effected by regional policies and by the overall structure of the politico-economic system. A central problem of the market socialist system, and of Communist strategies in general, has been its suppression of social factors (ethnic sentiment), its lack of acknowledgement of the differences between social or ethnic groups, and its failure to devise a more flexible path to development consistent with these differences. Firstly, the already-existing ethnic division of social groups was deepened by extreme decentralization, contributing to lack of coordination among regions and irrational use of funds. Secondly, some attributes of the social groups, such as high birth rates and low labour productivity, had an influence on not only differentiating one social group from another, but also on accentuating levels of disparity (as high natural increase strained employment and physical and social infrastructure of a region).

These social factors all played a role in some of the major failings of the Yugoslav strategies. Investment in industry and forced collectivization of agriculture were hard on all agricultural regions, but were particularly difficult for the more traditional agricultural sector in the southern regions where, for example, Muslims tended to resist change. Blanket investment in heavy industry everywhere would have been fine, except that the less-developed areas did not have an already developed light industry like the North, and capital-intensive heavy industry could not properly utilize the labour force in the South, which, for cultural reasons, would keep expanding disproportionately. Blanket decentralization (which in truth was ineffectual because the decentralization was not characterized by democratic participation, but by centralization at the republican and communal levels) resulted in ethnically heterogeneous areas that were unable to reach consensus concerning important national matters.

The Yugoslav Communists were also insensitive to the diversity which had developed prior to World War Two. The initial command model limited the freedom of areas to choose the development that might be most appropriate for their particularities. The initial suppression of this localized sentiment, followed by its sudden release accompanying decentralization reforms, proved to be devastating to Yugoslavia's overall development and unity. Blanket political/formal administrative lines were initially created around regions when there was a great deal of internal differentiation between ethnic groups and development levels. Ethnicity tended officially to be ignored or suppressed, resulting in the eventual explosive expression of ethnicity through violence. Uniform centralization and decentralization gave regions little choice in their path to development. In the end, the politico-economic structure did not give voice to particular/local sentiment -- something vital for a diverse country such as Yugoslavia.

## CONCLUSION

This thesis proceeded through four major steps. Firstly, it outlined the major literature of socialist strategies of regional development and focused on the main problems of the strategies as they were applied in Eastern Europe and the Soviet Union. The command strategy is a centralized model which incorporates the use of a central plan, which allocates investment and resources according to planning criteria determined by the central government. Theoretically, regionally balanced development will ensue in the most efficient manner -- various sectors and regions of a country are coordinated by a central government which should be equipped with accurate knowledge of the perceived needs of society.

For the command strategy, centralization and the dominance of the plan resulted in imbalances of power and development that were quite detrimental to regional balance. While Eastern bloc countries essentially achieved their goals of rapid industrialization, other objectives, such as the reduction of inter-regional, intra-regional, and sectoral disparities, were not met. Under both command economy and market socialism, disparities grew between urban and rural areas and industrial and agrarian sectors. Other sectors, such as agriculture or services, which could have better contributed to the development of a region, were stifled under Communist ideological concerns for "production." A bureaucratic minority dictated the focus of development to certain sectors in certain regions, while the plan and top-down nature of the system limited general participation of the population in checking power concentrations.

The market socialist model incorporates use of the market mechanism to perform in distributing goods efficiently according to demand. The central government retains its control at a general level with such devices as regulations and pricing, but the decision-making structure is increasingly decentralized to the level of enterprises and regions. Ideally, goals of efficiency and equality among regions could be attained through a more controlled market-decentralized system.

Problems with market socialism lay in some countries with the dominance of an unregulated and disequilibrating market and, with decentralization reforms, overbearing profit seeking and localistic behavior, a situation in which disadvantaged regions were unable to compete. Other market socialist countries experienced the dominance of the plan and monopolization of power by political elites, and the bias of those powerful bureaucrats towards favouring urban/industrial regions. Some countries also experienced a combination of the two sets of problems in a system of centralized decentralization. For some ethnically diverse countries such as Yugoslavia, the Soviet Union, and Czechoslovakia, the results of increased autonomy for local and regional units and elites was social, economic, and political fragmentation of regions (divisions that were deepened by the reality of stark economic disparities). Disparities were deepened under this system.

Abstract socialist economic models have existed in a political and social vacuum divorced from the historical realities of the particular regions. As I suggested in the first part of Chapter 2, I believe the basic reason for the inability of Eastern Europe and the Soviet Union to achieve balanced growth (or even efficiency) lies in the failure of their governments to adopt a strategy that is appropriate for different regions at different times. Historically, the command system, and to a lesser degree, the market socialist system, were implemented rather uniformly in Eastern Europe and the Soviet Union. The Soviet Union

set the pace and pattern of concentrated urban/industrial specialization in a centralized planning structure and this was closely followed by its Communist neighbors. Only some regions would respond positively to the industrialization drive of the government, while others were disadvantaged by their economic, political, or social situation. Under the market socialist model in practice, similar goals of specialized industrialization were followed with inadequate concern for how the situations of various regions changed or remained the same. Even Yugoslavia, which differed significantly from other socialist countries by virtue of its relations with the West, could not overcome the ideological "need" of socialism for the kind of regional development experienced by other Eastern European countries and the Soviet Union. The abstract, overwhelmingly economic, and uniformly applied strategies did not adequately consider regional differences, especially those of a social nature.

In order to demonstrate this with the Yugoslav experience, I first attempted to give a historical and geographical background to the Yugoslav situation in Chapter 2, to establish the differences and disparities that had accumulated prior to 1945. Physical geographic conditions (i.e. mountain ranges) influenced the initial division of the Yugoslavs into diverse ethnic groups. Thereafter, many foreign powers divided and differentiated the Yugoslav regions, influencing the religion, language, and customs of the ethnic groups. The most significant of these forces were the Austrian and Turkish empires, which split Yugoslavia into two poles. There was higher development in Austrian-dominated Croatia, Slovenia, and Vojvodina, regions which benefitted from industrial and infrastructural development. Meanwhile, Bosnia and Hercegovina, Macedonia, and Kosovo stagnated under the Turks. Many of the people of these regions also became Islamicized and would eventually resist the efforts of Communist industrialization. While initially disadvantaged



under the Turks, Serbia gained earlier autonomy and proceeded to increase its development relative to other Ottoman dominated areas.

The form of development imposed on some regions of Yugoslavia by external forces (such as Austrian policy with regard to Slovenia and Croatia), disequilibrating market forces, pro-industrial government policies in inter-war capitalist Yugoslavia, and the cultural tendencies among the different ethnic groups -- all contributed to the division and differentiation of Yugoslav regions. But the Yugoslav socialist strategy of rapid industrial development would be as equally imposed on Slovenia, the most prepared republic, socially, political, and economically, as it was on Kosovo, which was primarily agricultural, underdeveloped, and dominated by a religion (Islam) which, in this case, had principles that conflicted with those of socialist development (as it was shaped by the Yugoslav Communists). The Communist strategy of heavy industrialization in the southern regions did not pay due heed to the complexity of regions.

The Communists attempted to plow through regional differences and disparities. Chapter 3 outlined the main focus of the command strategy, a strategy which implicitly persisted in Yugoslavia despite reforms during the market socialist period. Typical problems of the command structure thus also remained. Expression of ethnicity was suppressed during the command period, which would eventually compound ethnic antagonisms, and divide Yugoslavia. Had ethnic groups been able to settle their grievances (or at least argue over them) in the politico-economic system, they perhaps would not have so suddenly exploded in later years. Moreover, in the Yugoslav models, regions were unable to follow the kind of development that was suited to their needs, as uniform policy was imposed on all regions. Both agriculture and other sectors which could have better contributed to the development of a region, were stifled under Communist ideological concerns for volume of

production. For regions dominated by the agricultural sector, lower development was directly related to low government investment levels and harsh agricultural policies. Another division of production arose in which heavy industry was predominant in less-developed areas, and the light industry of Yugoslavia remained in more-developed areas. For regions dominated by the heavy industrial sector, low development related inversely with high investment and government regulation, as during the command period, contradictory policies were pursued. Terms of trade were biased against raw materials production, and heavy industrial sectors and regions subsequently relied on government subsidization which compromised their competitiveness - governmental attention was (and continued to be) a suffocation of local initiative, rather than an impetus for greater and more quality production which would eventually characterize the light industrial sector.

Chapter 4 was the most complex chapter, as it attempted to combine an analysis of market socialist strategy, with the diverse social and regional conditions existing in Yugoslavia, and specifically examined how the politico-economic structure interacted with the social situations of different regions. The Yugoslav system was reformed by a number of measures aimed at decentralizing the decision-making structure and increasing the role of the market. The self-management system was created, in which management of property theoretically lay in the hands of the workers. Other reforms gave enterprises more control over production and circulation decisions, which they made within the parameters of central state regulations. In addition, political decision-making power concerning local areas and republics was increasingly devolved to the regional governments.

The structure of market socialism, as well as the regional policies pursued through this structure, contained contradictions. Planning interfered in the coordinating ability of the market due to the bias and intervention of bureaucrats. Simultaneously, self-interested

behavior of dispersed actors in the decentralized system, and disequilibrating forces of the market (e.g. unequal competition leading to monopolization) compromised the ability of the plan to achieve macro-objectives of balanced development (even if this were the goal of Yugoslav government policy in practice) with the efficient direction of the market. Centralized decentralization was the result of reforms in the decision-making structure; power was devolved to regional and enterprise heads. Ethnic rivalries (which were inadequately considered in socialist strategies) among the ethnic regions resulted in the social, economic, and eventually political fragmentation of Yugoslavia. Furthermore, irrational utilization of resources and duplication of projects was the result (which was especially difficult for less-developed areas), as the central government was no longer able to play its role in coordination and stimulation of ethnic regions which were attempting to pursue autarchic self-interested development. Under market socialism, regional policy itself continued to be contradictory. Funds continued to pour into heavy industrial areas, compromising their competitiveness with other sectors which were forced to become more efficient on the market. Heavy industry was simultaneously disadvantaged by government policies, which slanted tariffs and prices against this sector. Private agriculture, which predominated in the South, suffered under unfavourable terms of trade and lack of government investment. In terms of market competition in general, both capital and labour were more attracted to the northern more-developed regions and urban areas, reflected by low investment levels and deskilling in the southern regions and rural areas. Yugoslav interaction with the West was also slanted towards the more-developed regions. Trade flourished in northern regions which had greater attractiveness to foreign capital, given its higher economic development, and long tradition of interaction with the West. The service sector was privatized and allowed to develop with the market (where the disadvantaged regions were unable to compete), while simultaneously, the Yugoslav government stimulated the tourist sector of Croatia and Slovenia and selected urban areas. The great

majority of temporary workers abroad came from Croatia and other northern regions (that had the social and economic conditions to stimulate labour mobility in the first place), which contributed to the gaining of hard currency and skilled labour for the region.

As I have emphasized throughout this thesis, the failure of socialist strategies, even the seemingly flexible market socialist model, was related to their inability to acknowledge social differences among regions and be flexible to those differences. Firstly, after a long period of suppression of ethnicity, the already-existing ethnic division of social groups was deepened by extreme decentralization, contributing to lack of coordination among regions and irrational use of funds. Secondly, some attributes of the social groups, such as high birth rates and low labour productivity, had an influence on not only differentiating one social group from another, but also on accentuating levels of disparity. For example, low labour productivity, which was prevalent in less-developed areas, limited production output which might have contributed to an upward spiral of development. Policies such as capital-intensive heavy industrialization in less-developed areas did not utilize the labour force in these areas which, for socio-economic reasons (i.e. high natural increase), would keep expanding disproportionately. Even as unfavourable consequences arose from government neglect of social difference, extreme decentralization reform, without regard to the sensitivity of ethnic divisions, contributed to the social, economic, and political fragmentation of Yugoslavia. Moreover, because the structure of the Yugoslav market socialist system was still rigidly controlled by regional elites, local particularities of place could not be expressed through the political system, to manifest in a regional strategy which was suited to the development of each different region, a fusing of market and plan, centralization and decentralization, specialization and self-sufficiency, based on the capabilities and needs of each region during a specific time period.

The Yugoslavs are faced with a long road ahead: it is the opinion of some that the South Slavs are imbued with a characteristic pessimism which relates in some way to their inherent bad luck (or vice versa). It was on the brink of true democratic pluralism that the expression of place particularities through political and market economic structures was assumed by regional elites and taken a step too far, resulting in social, economic, and political conflict and divergence. Yugoslavia is no longer Yugoslavia. Even so, the separate countries of Slovenia, Croatia, Macedonia, Bosnia, or Yugoslavia (Serbia-Vojvodina-Kosovo-Montenegro), must all acknowledge difference and be flexible to their own internal diversities and disparities. The problems of regional development, as well as the question of how to structure a politico-economic system to facilitate this, still remain to be addressed.

In Yugoslavia and other socialist models, the balance between the coordinating forces of the market and the guiding force of the macro-plan, and a balance between centralized decision-making and more decentralized participation remains to be reached, that conforms to the geo-historical situation of each region, rather than unrealistically attempting to "flatten" these situations into uniformity. In terms of various paths of regional development, it is important how each system structures and follows its regional policy in practice. This thesis argues for the importance of a balance between self-sufficiency and specialization that is flexible and appropriate for different regions at different times. Strategies of regional development, in terms of the polarities of plan and market, centralization and decentralization, and self-sufficient or specialized development, must be adaptable to the different situations of countries and regions, during different time periods. There is a need for government to be sensitive to how regional social, political, and economic conditions change, and to implement a strategy that adapts to the changing needs for central control or market competition. In order for a government to be most sensitive, democratic

participation must transmit the information both upwards and downwards, as well as provide mechanisms to limit the power of the higher political levels. It is otherwise unclear and perhaps even impossible for the overcompensating extremes in the distribution of decision-making power to, on the one hand, concentrate power and development in the interests of macro-economic and long-term planning in order to promote balanced development, and on the other, allow for relatively free and equitable relations between market actors in order to promote efficiency.

Hopefully the conclusions I have reached in this thesis will be a positive force in regional development. This thesis has been an attempt not only to assess the Yugoslav situation, but also to contribute to the literature on socialist strategies in particular and regional development in general. This thesis has attempted to present not only a view of a particular place called Yugoslavia and its special development experience: even though Yugoslavia differed in important ways through its independence from the Eastern bloc, the general framework of its regional development situation can be seen to bear many similarities with the Soviet Union and some Eastern European countries. These places experienced similar pre-Communist development: the rise of a diverse ethnic groups and the higher development of parts of the countries (particularly in western areas) over others. These socialist countries also shared a similar cycle of development policy and political and economic structure: uniform centralization and planned futures followed by decentralization and market reforms; and similar regional development policies which included the suppression of agriculture and an over-emphasis on heavy industry to the point of suffocation. And the final results of the imposition of these standardized political and economic models on place particularities became increasingly apparent: horizontal economic, social (ethnic) and political fragmentation and the vertical widening of economic disparities. The contrast of the Baltic states with Kazakhstan and the Czech lands with

Slovakia bear striking resemblance to the inequality of Yugoslav development, even without the historical experience of the division between the Austrian and Turkish empires.

Unfortunately, advice based on the Yugoslav experience that could be given to other socialist governments may be somewhat belated. The disintegration of the Soviet and Czechoslovak political and economic union, in tandem with the clashes and tensions of the ethnic groups in these areas, strikes a chord similar to that of Yugoslavia. Soviet leaders no longer exist to try to ameliorate disparities between the Northwest and the Northeast of the country, through greater sensitivity for the differences among regions. Nevertheless, as many socialist countries continue on the road of market socialism, there are disparities and divisions that still remain within many of the "breakaway" republics and newly formed countries. There are new governments which must devise a strategy to deal with the internal regional diversity and disparity of these countries, and there is a need to understand these differences -- and the historical and geographical base of such diversity and disparity.

While (explicit) Communism certainly is dead in Eastern Europe and the former Soviet Union, the new governments continue to grapple with important themes of regional development -- the balance of centralization and decentralization and market and plan -- just as governments of capitalist (social democratic) countries attempt to define the extent of the public or government-controlled realm. I believe the results of the practical application of the Yugoslav model, and socialist models in general, demonstrate the need for flexibility between central power and local initiatives -- long-term government direction and democratic expression -- in the attempt to coordinate policies among sometimes incompatible places or localities. The proper politico-economic balance for each specific regional situation must be found so that the aggregate of these forces will be translated into a balanced and yet efficient process and pattern of development for that particular region at

that particular time. The case of Yugoslavia has provided lessons for Yugoslavia, for socialist strategies of regional development, and regional development in general. It is unfortunate that Yugoslavia and the socialist experience in Eastern Europe and the Soviet Union will be looked upon as worst case scenarios, but as in any situation, one must adapt to the existing (dis)order and exert one's own influences. Somehow a way of compromise must be navigated for the special situations of each region or country, so that contradictory policies such as those that arose in Yugoslavia will not result.



## APPENDIX: METHODOLOGY

In approaching the case of Yugoslavia, a comprehensive understanding of Yugoslav regional development required a pluralism of methodologies (given the limitations) to reinforce, complement, or check each other. Given its theoretical focus, this thesis relies primarily on secondary sources (acquired in North America) concerning socialist strategies of regional development, and the case of Yugoslavia in particular. However, the following research was pursued, with the intent to complement the main body of information and confirm the findings of the thesis: fieldwork in Yugoslavia, several focussed interviews of "experts" in the field of Yugoslav regional development, a variety of focused and non-focused interviews of people of various regions and social groups, and a base of statistical evidence provided primarily by the federal government of Yugoslavia.

Observations were based on two one-month stays in Yugoslavia, in August 1990, and December 1990-January 1991. Focussed, open-ended, structured interviews were conducted with several development specialists, most of whom were economists.<sup>1</sup> General interaction, as well as additional (more informal) interviews were conducted with graduate students, bureaucrats, pensioners, farmers, industrial workers,<sup>2</sup> merchants, service employees, youths and children, from each sex and age group, from urban and rural areas, and from a variety of ethnic backgrounds (e.g. Albanian, Macedonian, Bosnian, Slovene, Dalmatian, Vojvodinan Serb, Serbian, Zagreb Croatian, and Vojvodinan Hungarian). The

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<sup>1</sup> See Sources Consulted. A focus on processes of regional development did not seem to be particularly strong among Yugoslav geographers. Thus, economists were my primary source of interviewing.

<sup>2</sup> I would have liked to have interviewed enterprise heads, but the process of applying for such meetings was time-consuming and tended to require inside connections (the nature of the Communist beast, despite reforms).

sample (of approximately 40 people) was not pre-chosen, but I attempted to speak with people from all walks of life. I was interested in the perceptions these individuals had of Yugoslav regional development, and the performance of their governments with regard to regional development. However, much of the meat of this thesis was not based on these subjectivities, as regional perceptions per se was not the focus of the study. I'd like to note that throughout my research, I encountered considerable variations in views of Yugoslav regional development, usually based on the ethnic group to which a speaker or author belongs. Throughout this thesis, I have aspired to present a balanced interpretation, given my Serbian-American background. (I have also encountered the danger of being more harsh on the Serbs as overcompensation for real or imagined bias.)

Finally, statistical information was acquired from the federal statistical institute located in Belgrade, consisting of a series of statistical information for various years and statistical summaries of particular periods, in addition to statistical bulletins, republican statistical yearbooks, and other publications offered by the federal and republican statistical institutes. These sources are considered reasonably reliable, although statistical information is rather limited for the years prior to the 1960s. There was a heavy emphasis in the industrial statistics on production weights, rather than value of production, reflecting the penchant for Communist countries to emphasize volume of production, rather than the more elusive qualitative values. In addition, publications were acquired from various research institutes, including the Geographic Institute located in Ljubljana, the Economic Institute and the Institute of Economic Development in Belgrade, and the Economic Institute in Zagreb.

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