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THE YUGOSLAV EXPERIMENT WITH
SELF-GOVERNING MARKET SOCIALISM

by

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B.A., University of Inner Mongolia, 1982

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ABSTRACT

The thesis examines contradictions in forty years of development of socialist theory and practice in Yugoslavia. It analyses political communication at two levels: in workers' self-management institutions in the workplace and in self-government institutions at local, republic and federal levels. It also discusses the role of the market as a communication mechanism in Yugoslavia's socialist economy. Development of Yugoslav theory and practice of self-governing market socialism is set in a historical context. The Yugoslav people developed attributes of self-reliance and solidarity during hundreds of years of foreign domination. Despite the generally independent leadership of the Communist Party of Yugoslavia in the partisan resistance to the Nazis, after the party came to power in the post-war period, it pursued a development strategy based on the Soviet model. However, after the split between Tito and Stalin, Yugoslavia began to develop her own model of socialism based on a reexamination of Marx.

The thesis traces the successes and failures of forty years of socialist development and the factors that led to the present political and economic crisis. After discussing distortions in the economic and political spheres, the study turns to a reexamination of Yugoslav theory, in particular the key questions concerning the nature of social ownership and the role of the state.

The thesis is based mainly on a study of the literature, including socialist theory in general and studies of Yugoslavia in particular. These included studies by Yugoslavs and by scholars outside Yugoslavia.

Research also involved discussions with Yugoslav and non-Yugoslav scholars and participants in a three-week seminar on "Participation, Workers' Control and Self-Management" in Dubrovnik, Yugoslavia in January-February 1986 and interviews with Yugoslav scholars afterwards. Personal observation of Yugoslav socio-economic life while travelling in the country also influenced the analysis.

The thesis disputes a common assumption in China and elsewhere that the root of Yugoslav problems lies with an excessive restriction of state powers to regulate the economy in a context of expanding regulation by the market.

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INTRODUCTION

After the Second World War, the socialist countries which emerged with or without the help of the Soviet Union all had links with the world's first socialist country. Out of this association developed the international socialist camp with Stalin at its head. All the new socialist states were encouraged to carry out socialist construction along the lines of the Soviet model. Because of the overwhelming power and control of the state in this model, it is sometimes referred to as "statist socialism" or simply "statism."

Soon after the "socialist camp" appeared, splits resulting from internal disputes began to occur. Yugoslavia broke with the Soviet Union in the late 1940s, then China did so in the early 1960s. Though Yugoslavia and China had chosen different roads after their departure from the socialist camp, these two events were certainly not completely unrelated. Both the Yugoslav and Chinese revolutions developed in the course of developing independent resistance movements, i.e., people's war, against fascist invaders during the Second World War. This experience gave their respective parties and leaders experience, confidence, and mass support which were to prove important in making the decision to "go it alone" if necessary.

Since the break with the Soviet Union, Yugoslavia has committed herself to removal of the influence of Soviet statism and the establishment of a new socialist socio-economic order in accord with an

interpretation of the spirit and original intent of Marx's humanism. The unique Yugoslav model of self-governing market socialism has drawn the attention of scholars and socialists around the world. Today China, after decades of turmoil, has started to look for a distinct way to move the direction of her own socialist construction away from the Soviet statist model. As there is no ready-made model available, it certainly is worthwhile for Chinese socialists to examine the experiences of other socialist societies. Yugoslavia is naturally at the top of the list of countries worthy of study.

In contrast with the Soviet interpretation of Marxism as a contemplation of abstract entities such as the state and collectivities, the Yugoslavs focus instead on the individual human being. From the Yugoslav perspective, people are essentially free and creative beings who through their praxis manifest their individual and collective potentiality in the process of transforming the world. The process of changing the world is at the same time a process of individual and collective self-actualization.

On the basis of their humanist understanding of Marx, the Yugoslavs have been developing a socio-economic synthesis of two interrelated communication mechanisms to coordinate their social life. These are the market and an institutional framework for self-management and self-government. The former is a horizontal economic communication mechanism; the latter is a vertical political communication mechanism. [1] The dialectical synthesis of these two means of communication is what gives the Yugoslav model its particular character and distinguishes it fundamentally from the Soviet model.

The dialectical relation between the two aspects is revealed in the

fact that each of the communication mechanisms demands the other. Without the one, the other cannot operate as anticipated. For instance, the market works on the premise that the producers are autonomous. However, the autonomy of producers cannot guarantee that the market as a self-regulating institution will not produce disproportions and inequitable socio-economic relations. Self-government as a political communication network is designed to redress the market's shortcomings by ensuring equal opportunity in access to information and equal rights in participation in decision-making over the management of the means of production of society.

On the other hand, the two institutions are also in contradiction with each other in the sense that one jeopardizes the other. By its very nature, the market (without regulation from outside) creates inequality and moves the economy towards monopolization. Self-government is an attempt to create equality and autonomy within the functioning of the market. Therefore, only so long as the attempt at the construction of a system of human equality is sincerely and successfully carried through is there any possibility that a viable synthesis of the two aspects may become a potent force facilitating individual self-actualization.

The thesis examines the uniqueness of Yugoslav socialism, in particular this attempted synthesis of market and self-management in the postwar period. Chapters One and Two contain descriptions of the historical and theoretical context out of which the Yugoslav model emerged. Chapter Three describes the model in theory while Chapter Four summarizes the practice whereby the model evolved. Chapters Five and Six analyze contradictions in that practice and Chapter Seven returns to an analysis of contradictions in the theory itself.

The thesis is primarily based on readings in the available literature. I also participated in a three-week course on "Participation, Workers' Control and Self-Management" held in Dubrovnik, Yugoslavia in January-February of 1986. Afterwards I was able to interview Yugoslav scholars. The literature reviewed included studies of socialism in general and specific studies of Yugoslavia by both Yugoslavs and foreign scholars all expressing a wide range of viewpoints.[2]

With the intention of assisting those who want to have a better understanding of the overall picture of the development of Yugoslav socialism, and especially, the Chinese people, my fellow countrymen, I try to elucidate some of the major issues being discussed in Yugoslavia. I also try to evaluate as objectively as I can, the development of Yugoslav self-government and market socialism in the light of its accomplishments and failures, so that those who are trying to determine their own options may find this work useful. If it proves useful, it will have been worth the effort. Finally, I want to declare that I assume full responsibility for the way in which the literature has been interpreted and used.

CHAPTER ONE

HISTORICAL CONTEXT

If we did not consider *history* as a lasting laborious conscious-unconscious process, sometimes with, sometimes without perspective, in each epoch more radically and deeply transforming natural and historical being - then we should deny any possible rational approach to an explanation of our origins, of the mainstream and the tributaries of life. (Vranicki 1965: 42)

Being the first country in the world to attempt to develop self-governing market socialism, Yugoslavia has attracted the attention of scholars around the world. Academics inside and outside Yugoslavia agree that there are historical reasons why self-management took root in Yugoslavia. The country's long tradition of opposition to foreign domination was reinforced by a political leadership schooled in the basic concepts of Marxism. In a period of crisis caused by external aggression, these two traditions came together in a powerful resistance movement which ultimately prepared the way for an attempt to establish a new social order in a system of self-governing market socialism.

Yugoslav History before World War I

For many centuries Yugoslavia was dominated by foreign powers. In the first two centuries of the Christian era, the Roman Empire was gradually extended into present-day Yugoslavia. When, in the third century, the Roman empire was divided into East and West, the dividing line passed through the middle of Yugoslavia. The north became Roman Catholic and the south Eastern Orthodox. (Singleton and Carter 1982: 40)

During the Middle Ages, the Muslim Ottoman Empire occupied the southeast region of contemporary Yugoslavia while the Hapsburg Empire controlled the northwest. This partition, which lasted for centuries, gave the nation a complex ethnic composition. The northwest (Slovenia, Croatia, and Vojvodina) developed a Western European Catholic culture. The central region (Serbia) and parts of the south (Montenegro) had a predominantly Eastern European Orthodox culture. Macedonia and Kosova in the south, with a majority of Albanians, and parts of Bosnia in the midwest had a Near Eastern Muslim culture. These cultural differences were augmented by other differences such as levels of economic development. The north was more highly developed and integrated into the European market. The south was more underdeveloped and dependent on an insulated subsistence agrarian economy.

For many years Yugoslav peasants fought relentlessly against Turkish expansion. The intensity of their resistance was the product of a high degree of popular participation. This "widespread communal violence" left a deep imprint on Balkan history. (Denitch 1976: 32)

During the entire era of foreign domination, Yugoslavia was never a centralized state. Foreign control encouraged centrifugal tendencies among the Yugoslav peoples. Relatively relaxed central administrative controls allowed for a relatively wide area of local discretion. Centuries of such dispersal of power created a tradition of and preference for local self-reliance and mistrust of any kind of central government, especially an alien one. (Pusic 1975a: 113)

Croatia and Slovenia, incorporated into the Austro-Hungarian Empire for centuries, were more closely tied to Western European traditions. In the nineteenth century, these two areas started to develop small

industries like textiles, lumber, and footwear. (Flego and Kutanjac 1982: 55) The French Revolution inspired the people of Croatia to also fight for the independence and unity of Yugoslavia. (Ibid.: 26) But it was not until the end of World War I that the country finally became a united kingdom of Yugoslavia. At this time industry, located primarily in Slovenia and Croatia, developed further. After the Soviet revolution, the workers' movement led by the Communist Party, which had been founded in 1919, began to develop. However, the potential of the Communist Party was not realized until World War II when Yugoslavia found herself once again under foreign domination. This time it was the Nazis who carved up the nation.

World War Two

Like the Chinese people, the Yugoslavs are proud of their victory in the people's liberation war, believing that it directly nurtured the growth of socialist self-management. (Vratusa 1981: 98) During the second world war, the Communist Party of Yugoslavia pursued a quite democratic strategy based on general mass initiative to resist the fascists and their puppet governments. This experience was quite analogous to that of the Chinese Communists in the same period when a united front was established to fight for national independence and developed to some extent a certain socialist identity. (Denitch 1976: 2) The Yugoslav and Chinese revolutions are quite comparable inasmuch as they were both rooted in a people's war with only minimal support from the Soviet Union. Both involved extensive indigenous mobilization of both the proletariat and the peasantry, a situation in marked contrast to Soviet experience. This mass base was an important precondition facilitating the later splits in the Soviet camp in

which Yugoslavia and China were both castigated as renegades.

In the resistance the Yugoslavs began to develop the first notions and practice of self-management. In the words of Miloc Nikolic:

The best proof of this was the establishment and activity of people's liberation committees, workers' management of the factories and numerous workshops in the liberated territory, the initiatives of the soldiers in the armed formations of the Revolution, and the democratic relations that prevailed within these formations. (Nikolic 1981: 37)

As early as 1941, various forms of wartime popular political organization came into existence. For example, workers' committees in liberated areas organized production to support the front with necessities. For example, in one of the first liberated areas, Krupanj town in Serbia, a workers' council was elected in the local antimony works. This council organized and managed the work process and the logistics of supplying the workers with food and housing. (Zukin 1975: 55) At the same time, self-governing local assemblies, later called people's committees, administered the liberated areas in such a way as to develop the war economy and support the partisans in various ways. All these activities gave the people an experience with popularly elected and popularly responsible councils in work units and in local government.

After the war ended, on July 30, 1945, based on this wide scale practice during the war, a law was passed by the anti-Fascist Front headed by Tito and the Communist Party which initiated forms of workers' representation in all private, cooperative, and state enterprises employing more than five workers. The workers' representative councils as they were called were intended, according to the law, "to protect the interests of the liberation struggle" and "to work for the defense of the social and economic interests of the workers and to help move production

forward." Although the terms used here were vague, it is quite likely that the law was based on a Soviet decree of 1917 which instituted "workers' control over the production, distribution, and buying and selling of all products and raw materials." (Zukin 1975: 56)

Unfortunately, the Soviets soon abandoned the experiment with workers' control. However, the Yugoslavs carried the experiment much further than their Soviet mentors.

The Break with the Soviet Union

After the founding of the Yugoslav republic on November 29, 1945, Soviet influence grew to dominate the new regime both in terms of theory and practice. In 1946, a constitution was adopted which established a socialist federal structure in which the equality of all the main nationalities was recognized by the creation of six constituent republics and two autonomous regions. The candidates to the legislative bodies of the Republics and the federal Parliament were to be elected from the People's Front led by the Communist Party. (Singleton and Topham 1963: 2)

The constitution sought to facilitate rapid economic recovery by putting the federal government in a position to plan and manage the national economy. People's committees were retained as organs of local government. The representatives who sat on their local government committees were elected on the basis of a general, equal, direct, and secret ballot, according to the General Law on People's Committees of May 28, 1946.

Later on, this representative infrastructure developed into parliamentary chambers and municipal and communal assemblies. The continuation of people's committees governing after the war was paralleled by the evolution of workers' councils, known at the beginning as workers'

representative councils in enterprises. (Zukin 1975: 56)

In accordance with the Soviet model, major industries were put under tight state control. "All mineral wealth, power resources, banking, communications, foreign trade and all but the smallest industrial enterprises were nationalized." (Singleton and Topham 1963: 2) However, land was not nationalized and in accord with peasant aspirations, land reform was carried out to ensure that land became and remained the property of those who tilled it. However, the government promised the peasants would not be left to their own devices. In the words of Tito speaking to journalists in 1945: "...the state will help them both by establishing *plans* and by providing *instructions* on better methods of cultivation." (Stanojevic 1963: 15) According to Tito, Yugoslavia was striving to achieve a "high degree of concentration of authority in the central organs of the state, and the direct management of the state mechanism by the Party." (Singleton and Topham 1963: 2) Nevertheless, the Soviet party, which claimed to be the authoritative interpreters of Marx, and who had a monopoly on practical experience in socialist economic planning, was not satisfied with Yugoslavia's performance. Being a rigid interpreter of Marxism, Stalin could not tolerate Yugoslav agricultural policy. He criticized the Yugoslav party as a "kulak party" practicing a degenerate form of socialism because of its failure to resolutely pursue a policy of agricultural collectivization regardless of peasant attitudes and aspirations. A Cominform resolution on June 28, 1948 expelled Yugoslavia from the socialist camp. Yugoslavs were shocked. They tried to prove their revolutionary credentials by carrying out a hasty collectivization of agriculture from 1949-1952. But the Soviet Union would not relent. (Milenkovitch 1971: 63)

The break with the Soviet Union became a decisive turning point in the development of Yugoslav socialism. The break with Stalin set the Yugoslavs free to reconsider their previous practice and to search for legitimation for their own socialist road in the original writings of Marx as opposed to Soviet interpretations. This split between Yugoslavia and the Soviet Union did not occur simply because of different perceptions of a specific policy. It is a difference of ideology--a difference between the important theories which provide a basis for the major socio-political and socio-economic programmes in Yugoslavia. To understand this, we have to go back to Marx to see how he conceptualized the future society, which he himself never lived to see.

CHAPTER TWO

THEORETICAL BACKGROUND

Ambiguities in Marx

Marx's conception of socialism was based on his critical study of capitalism, a system of inequitable relations of production mediated by an anarchic market. Marx's study of capitalism led him to the conclusion that a better socio-economic order based on a more equitable method of allocating resources was not only possible, but inevitable. Nevertheless, Marx was quite reluctant to try to actually sketch out the details of this future socialist society. Aware of the pitfalls of earlier utopian socialists, Marx avoided trying to develop a detailed picture of his own utopia. One can find only bits and pieces of his ideas scattered throughout his works.

In *The Civil War in France*, Marx said:

...The Commune, they exclaim, intends to abolish property, the basis of all civilization! Yes, gentlemen the Commune intended to abolish that class property which makes the labour of the many the wealth of the few. It aimed at the expropriation of the expropriators. It wanted to make individual property a truth by transforming the means of production, land and capital, now chiefly the means of enslaving and exploiting labour, into mere instruments of free and associated labour.--But this is communism, "impossible" communism! Why, those members of the ruling classes who are intelligent enough to perceive the impossibility of continuing the present system--and they are many--have become the obtrusive and full-mouthed apostles of co-operative production. If co-operative production is not to remain a sham and a snare; if it is to supersede the capitalist system; if united co-operative societies are to regulate national production upon a common plan, thus taking it under their own control, and putting

an end to the constant anarchy and periodical convulsions which are the fatality of capitalist production--what else, gentlemen, would it be but communism, "possible" communism? (Marx 1948: 84)

Socialism, for Marx, is a system in which freely associated producers working collectively with socially owned means of production, control the development of production and their collective product as well. Being a modern system of production, sophisticated mechanisms of coordination and management are needed to organize economic activity from the extraction and transport of raw materials, the mobilization of labour, the process of production itself, to the distribution of the products of labour. Marx believed a "common plan" would have to be drafted and obeyed. In other words, a social consensus would have to be achieved through appropriate forms of communication and organization.

There are two ways to realize this "common plan." In one method, all individuals and collective activity would be organized according to their importance, into a hierarchical structure in which the state, as the representative of society, both plans and organizes all economic activity. The source of this idea can be found in Marx when he compares the organization of the national economy with the organization of an enterprise.

...The *a priori* system on which the division of labour, within the workshop, is regularly carried out, becomes in the division of labour within the society, an *a posteriori*, nature-imposed necessity, controlling the lawless caprice of the producers, and perceptible in the barometrical fluctuations of the market-prices. Division of labour within the workshop implies the undisputed authority of the capitalist over men, that are but parts of a mechanism that belongs to him. The division of labour within the society brings into contact independent commodity-producers, who acknowledge no other authority but that of competition, of the coercion exerted by the pressure of their mutual interests; just as in the animal kingdom, the *bellum omnium contra omnes* more or less preserves the conditions of existence of every species. The same bourgeois mind which

praises division of labour in the workshop, life-long annexation of the labourer to a partial operation, and his complete subjection to capital, as being an organisation of labour that increases its productiveness--that same bourgeois mind denounces with equal vigour every conscious attempt to socially control and regulate the process of production, as an inroad upon such sacred things as the rights of property, freedom and unrestricted play for the bent of the individual capitalist. It is very characteristic that the enthusiastic apologists of the factory system have nothing more damning to urge against a general organization of the labour of society, than that it would turn all society into one immense factory. (*Capital* 1977: 336-337)

Within the infrastructure of this "national enterprise," the allocation of resources such as means of production and labour is controlled by the state. This is more or less the framework that the Soviet Union and subsequent socialist states modelled on the Soviet system have espoused.

However, with a system based on social property wherein freely associated producers are creating their own wealth through appropriation of the objective world, it is possible to conceive of a different arrangement in which agreement among producers is achieved through appropriate communication mechanisms. This agreement is achieved through laws drafted and voted on in a context of self-government by the associated producers themselves. This notion is found in Marx as well.

Consider, for example, the following passage from *The Civil War in France*:

The Paris Commune was, of course, to serve as a model to all the great industrial centres of France. The communal regime once established in Paris and the secondary centres, the old centralized government would in the provinces, too, have to give way to the self-government of the producers. In a rough sketch of national organization which the Commune had no time to develop, it states clearly that the Commune was to be the political form of even the smallest country hamlet, and that in the rural districts the standing army was to be replaced by a national militia, with an extremely short term of service. The rural communes of every district were to administer their common

affairs by an assembly of delegates in the central town, and these district assemblies were again to send deputies to the National Delegation in Paris, each delegate to be at any time revocable and bound by the *mandat impératif* (formal instructions) of his constituents. The few but important functions which still would remain for a central government were not to be suppressed, as has been intentionally misstated, but were to be discharged by Communal and therefore strictly responsible agents. The unity of the nation was not to be broken, but, on the contrary, to be organized by the Communal Constitution, and to become a reality by the destruction of the state power which claimed to be the embodiment of that unity independent of, and superior to, the nation itself, from which it was but a parasitic excrescence. While the merely repressive organs of the old governmental power were to be amputated, its legitimate functions were to be wrested from an authority usurping pre-eminence over society itself, and restored to the responsible agents of society. Instead of deciding once in three or six years which member of the ruling class was to misrepresent the people in Parliament, universal suffrage was to serve the people, constituted in Communes, as individual suffrage serves every other employer in the search for the workmen and managers in his business. And it is well known that companies, like individuals, in matters of real business generally know how to put the right man in the right place, and, if they for once make a mistake, to redress it promptly. On the other hand, nothing could be more foreign to the spirit of the Commune than to supersede universal suffrage by hierarchic investiture. (Marx 1948: 80-81)

Marx here implies that in socialist society people govern themselves rather than allowing any alienated power over and above the population to govern on their behalf. The question still remains as to how to achieve agreement among numerous free actors engaged in a diversity of social and economic activities in order to meet each others' needs without the imposition of a centralized authoritarian planning bureaucracy. This can be taken to imply the necessity for a market to at least reduce the number of strategic decisions to be taken to feasible proportions. However, no such recommendation can be found in Marx. Quite the contrary, the market as a mechanism to regulate the structure of production was roundly condemned by Marx. This hostility toward the market arose out of his

perception of the relation between commodity or market relations and alienation in capitalist society. Marx pointed out that with the development of commodity exchange, the producer of a good or service ceases to be concerned with the use-value which he creates through his labour, with the concrete existence of this product, its meaning, significance and usefulness, and becomes preoccupied instead merely with its exchange-value. Marx pointed to the phenomenon of commodity fetishism wherein social relations between people are obscured and experienced as relations between things. Marx found market relations dehumanizing and would have been the last person to recommend the market as a mechanism to aid producers to regulate their economic activity according to the perceivable structure of need.

The Soviet Model

Lenin developed his ideas on the basis of a careful reading of Marx. He faced a major contradiction in attempting to build socialism in Russia. Marx had assumed that socialism would be realized on a foundation of modern industry--the legacy of capitalist development. In the October revolution, the Bolsheviks inherited a nascent industrial system still far from the level of development assumed by Marx. Marx assumed socialism would be built in a society in which scarcity was well on the way to being overcome. The newly established Soviet society was instead a society of absolute scarcity in which hunger and malnutrition and inadequate housing were major problems indicating an inability to meet even the most basic needs of the population. Scarcity produced a major contradiction between the urban proletariat and the rural peasantry. The government required

cheap food and agricultural inputs to minimize the costs of industrial production and this meant compulsory requisitions of agricultural products at prices well below market prices. While Lenin was not insensitive to the needs of the peasantry, he was somewhat blinded to the need to allow peasants to articulate their interests on an equal footing with the proletariat whom they greatly outnumbered. From Marx, Lenin inherited the notion that "the whole society will have become a single office and a single factory, with equality of labour and pay." *State and Revolution*; quoted in Selucky 1979: 55) Therefore, democracy in Soviet society was gradually subordinated to a group specializing in planning and coordinating the economy as a whole, a group who established their sovereignty as the embodiment of truth and unity. The Communist Party was transformed from an organization of the people operating for the people into a bureaucratic apparatus determining "society's" needs and organizing production to meet them. Alec Nove has pointed out the "*centralising* logic of 'production for use', of the elimination of the market" in the Soviet system. It was not simply Stalin's mania for centralized state power that produced the Soviet bureaucracy. The tendency is inherent in the very notion of "society" deciding its own needs and how to provide for them. (Nove 1983: 30)

In "socialist" transformation according to the Soviet model, the abolition of private ownership is conducted in such a manner that nationalization becomes a substitute for the process of transformation of legally public property into real social ownership. The state becomes the de facto owner. A hierarchical information system is organized in which the party sits atop a power structure and assumes authority over all key

political and economic decisions. Communication links are vertical and hierarchical and communication relations are authoritarian. Commodity relations and market exchange are deliberately minimized and suppressed. Exchange value and money are rejected as legitimate indicators for economic calculation in economic planning and accounting. This produces the tendency to set targets and measure achievements in physical units. Since real economic property rights, defined as rights of disposition over the most important conditions and circumstances of production and distribution, are exercised by the state, labourers as a result become mere wage-labour, who sell their labour-power to a state enterprise. Their immediate concerns are directed towards the most advantageous return for their labour rather than the effective functioning of the enterprise.

Socialist production, in theory geared to maximum satisfaction of social needs, is actually characterized by a situation in which these needs have to be legitimated by the bureaucratic machinery over which the population has no real control. In the end, the supposed "superiority" in allocation of resources, antithetically, produces instead chronic shortages and the alienation of workers. Excessive investment in capital-intensive industries creates a great shortage of capital. The restriction of labour mobility and the relative neglect of education and science produce serious shortages of skilled labour. Supply constraints for both producer and consumer goods causes hoarding which in turn makes accurate forecasting and planning impossible. (Kornai 1982 and 1980)

In order to sustain the high rate of accumulation and industrialization, individuals are asked to repress their own needs in the interest of the community as a whole. This is a vague expression of so-called

"democratic centralism." Mao Zedong provides a less ambiguous formulation.

The organization must be placed above the individual, the majority above the minority, the higher party functionaries above the lower, and the central committee above the entire party. That is democratic centralism in the party. [1]

In the face of the state bureaucracy, workers are belittled. They are completely alienated from the means of production and the results of their labour. They have lost control even over their own labour. This situation is quite contrary to what Marx had anticipated socialism would be. To some extent, Lenin recognized certain defects of the system. He started to rethink his position and greatly expanded the role of the market during the period of the New Economic Policy (NEP) of the 1920s. (Lewin 1974 and Nicolaus 1975) Unfortunately, Lenin died during this period. Stalin, on the other hand, a rigorous dogmatist, completely ignored the discrepancies between the actually existing Soviet system and the basic notions of Marx's socialism: social ownership of freely associated labour and economic and political democracy. Instead of reducing state power in conformity with the Marxian notion of the "withering away of the state" in place of which freely associated producers govern themselves, Stalin reinforced and greatly expanded the role of the state in the process of enhancing his personal power.

It is a debatable question as to whether the development of Stalinism was inevitable given the historical conditions. During the revolution in 1917 a decree was passed to create factory committees and Soviets. Could they possibly have taken upon themselves the tasks of democratic self-management and democratic self-government? Petrovic sheds some light on this when he states:

I do not think that Stalin and Stalinism are exclusively 'negative' historical phenomena. But regardless of how history finally weighs all Stalin's political 'merits' and 'mistakes' one thing is already certain: Stalin's conception of Marxist philosophy differs essentially from Marx's, Engels' and Lenin's. Stalin simplified, distorted and made rigid philosophical views contained in the works of Engels and Lenin, and almost completely ignored the philosophical inheritance of Marx himself. (Petrovic 1967: 56)

It is true. Without Stalin's simplification and distortion of Marxist philosophy, there would have been a greater possibility for people to return to the original sources and discover the humanist essence of the Marxian conception of socialism. Without this rigid interpretation of Marxism, a reevaluation of the role of the market in socialist society might have been possible. [2]

Marx's Philosophy of Need

At the heart of Marx's conceptualization of the society of freely associated labor is the notion that the goal of socialism is to create the conditions for universal and equal opportunity for self-development, for individuals to realize their creative potential, and for full and equal satisfaction of human needs. This implies, first of all that humans are rational beings full of potential for self-development and capable of philosophical reasoning. Secondly, people must have the freedom to pursue their own interests. Being social beings, individuals as members of communities, must seek to resolve conflicts of interest between their particular needs and those of the community as a whole. But this should be done democratically. A third point which derives from the above two is that each individual has the right to be informed by all possible means of the actual situation of the community and the possible ramifications of

certain choices for the need satisfaction of the community as a whole. Obviously a clarification of "need" is required here. As a matter of fact, the concept of need is crucial for understanding Marx's humanism. It will be argued in this thesis that it is also crucial for understanding the need for two seemingly contradictory mechanisms of communication (the market and self-government) in a socialist society.

The theory of needs has been widely studied from a variety of perspectives: anthropological, physiological, sociological, and psychological. [3] My own conception draws from a number of sources including Marx, Yugoslav philosophy (both official and oppositional) and the East German dissident, Rudolf Bahro. Bahro, and the Yugoslavs all develop their notions of needs within a Marxian framework. Unlike Marx who was developing a critique of the market-oriented capitalist system, Bahro and the Yugoslavs are developing a critique of what they perceive as anti-market, authoritarian systems which claim to be socialist. In *The Alternative in Eastern Europe* Bahro sketches out a theory of needs which provides the normative basis for a critique of the traditional division of labour which persists in the societies of Eastern Europe. [4] What Bahro means by the traditional division of labour is the persistence of a hierarchical social structure that arbitrarily places people in positions of domination and subordination. He builds his theory of needs around the concept of "surplus consciousness" which he defines as "free mental capacity which is no longer absorbed by the struggle for means of existence." (Bahro 1981: 271) This surplus consciousness is manifested in two different forms of need, emancipatory and compensatory. Compensatory needs arise when emancipatory needs are inadequately

satisfied. Compensatory needs take different forms in different historical settings and are linked to consumption and possession, including the possession of power. Emancipatory needs are "oriented to the growth, differentiation, and self-realization of the personality in all dimensions of human activity." (Ibid.: 272)

Horvat, a leading economist in Yugoslavia, elaborates three realms of activity in which emancipatory needs can be developed. These are the realms of work, consumption, and citizenship. As workers, individuals require equal access to means of production, equal opportunity to work, and equal rights to participate in decision making within the workplace. As well, workers require equal rights to participate in social planning in the form of negotiation and coordination between autonomous working collectives.

As consumers, individuals require equal or just distribution of income in proportion to labour input as well as equal access to social services and social facilities in accordance with their needs.

As citizens, individuals require equal distribution of power and a meaningful participation in political decision making. (Horvat 1982: 229-232) Horvat implies that the equality of individuals as workers, as consumers, and as citizens is an essential prerequisite for the emergence, expression, and fulfillment of their emancipatory needs.

Yugoslav socialists seem to have a strong sense of the rights and needs of individuals in socialist society. The Program of the League of Communists of Yugoslavia (1958) states that "Socialism cannot subordinate man's personal happiness to some sort of "higher goals," for the highest goal of socialism is man's personal happiness." However, the very next

sentence goes on to say "On the other hand, no one has the right to realize his personal interest at the expense of the common interest of all." (Horvat, Markovic, and Supek 1975: 265) This ambiguous attitude toward the relation between individual interests and a hypothesized "general interest" reflects the limited nature of the Yugoslav break with the etatism they so sharply criticize.

Market and Plan

The market is an essential ingredient in the Yugoslav conception of self-governing socialism. It is viewed as a prerequisite to guarantee the autonomy of self-managing producers. The Yugoslavs have gradually expanded the role of the market since the break with Stalin. This expansion has been accompanied by an analysis of the positive and negative effects of market exchange on social relations in Yugoslav society.

The Yugoslavs view the market as ultimately the product of the social division of labour and of scarcity. In order to function effectively, it requires autonomous producers who are equal at least in a legal sense. The market is relatively efficient in allocating resources, determining the structure of production, and regulating exchange. It is a relatively effective mediator between production and consumption. It provides an impetus to producers to increase productivity and provides criteria for comparing the costs of production. It creates various channels for horizontal communication between producers.

However, in the Yugoslav system the return for labour is determined by the exchange value of the working collective's product as realized in the market. This encourages labourers to fix their attention more on

exchange value than use value. This situation stimulates movement into production that yields high levels of compensation. It is this aspect of market self-regulation that produces disproportions in the economy. First, it creates economic crises of overproduction and underproduction. Second, the market generates inequality between producers through competition which will eventually cause social differentiation leading to the dissatisfaction of relatively disadvantaged groups. Third, related to this is a tendency towards monopolization in the absence of external intervention. Fourth, the market stimulates investment only in those activities which are likely to generate profits at least comparable to the average rate of profit. Many individual and communal needs may be inadequately met if there is no other stimulus to invest.

Marx's critique of the market mechanism was not confined to these inherent tendencies which had been recognized by other economists. His major criticism rested on an analysis of the root cause of the alienation of labour. Marx objected to the fact that the development of commodity exchange relations led inevitably to the development of a market for labour. The labour embodied in a product is materialized and becomes an object beyond the control of its makers. Labour power becomes an alienated power. Work is no longer an end in itself but has become a means to earning the means of subsistence. Therefore, Marx sought a method of allocating labour without relying on the regulating capacity of a labour market. Thus Marx envisaged the socialist future economy as regulated by central planning. Marx did not anticipate central planning as a necessary feature of socialist society to resolve conflicts of interest over the allocation of scarce resources since scarcity and

therefore conflict of interest would not be a problem. Rather the plan was needed to allocate labour and other productive forces without relying on the market.

It was not just the labour market which would be eliminated however. All commodity exchange would disappear. Everything, including labour, would be measured and compared not in units of exchange value (money or prices) but as use values. Marx recognized that use values are not actually comparable but he seems to suggest with the labour theory of value that a comparison of labour inputs would be not only possible, but even relatively simple.

However, in a centrally planned command economy, labour necessarily loses its autonomy. Under the wage labour system of capitalism, wages are set by antagonistic bargaining between capital and labour. Under the wage labour system of what the Yugoslavs call "statism," wages are simply set by the state planner. Of course, there is espousal of the "socialist principle of distribution according to labour." This sounds just and equitable in principle, but in fact, there is no obvious criteria or democratic discussion to determine standards by which to compare what are essentially incomparable labour inputs between people working in different social and economic sectors with different responsibilities and different effects despite comparable amounts of labour time expended.

Despite the limitations of relying on a central plan to determine the structure of production and allocate labour, relying simply on the market is also unacceptable as it leads inevitably to inequality and unemployment. The Yugoslavs and many socialists therefore conclude that the only acceptable solution is a market regulated by planning to

eliminate or at least minimize the inherent limitations of relying on either the market or a central plan without the other.

Planning occurs primarily in three related areas: prices, investment, and income distribution. Enterprise revenue is determined primarily by the difference between the costs of production and the prices of the enterprise's products in the market. The enterprise then divides its net revenues after paying taxes between a wage fund and an investment fund. Investment in expanded reproduction will affect enterprise revenue by affecting the costs of production, the size of the labor force, and/or labor productivity. The ratio between investment and distributed income is in effect a ratio between immediate consumption and future projected consumption. Since prices, investment, and income are interdependent, price, investment, and income policy planning have to be worked out as a coherent package. For example, income policy has as its goal the minimization of inequality by regulation of consumption and production through the establishment of a proper ratio between the investment fund and the wage fund. This balance cannot be achieved simply by price regulation which only affects enterprise revenues and not enterprise decisions regarding the allocation of revenues between wages and investment. Investment policy has as its goal the efficient and adequate allocation of capital. Credit policies can shape the structure of production but credit also makes it possible for enterprises to allocate a greater proportion of revenue to wages. [5]

Yugoslav socialists draw a sharp distinction between central planning and social planning. Central planning refers to command planning in a Soviet-type economy. It is viewed as being both arbitrary and

authoritarian. Social planning is a system under which producers can engage in planning through self-management agreements or social compacts among themselves regulated by law. The institutional structure constructed to make this possible will be described in Chapter Three.

CHAPTER THREE

THE YUGOSLAV INSTITUTIONAL FRAMEWORK FOR SELF-GOVERNMENT

This chapter will describe the institutional framework for self-government found in Yugoslavia after four decades of experimentation and evolution. The process of development of these forms will be examined in Chapter Four.

Decentralization

In the development of Yugoslav self-governing market socialism, there was an early recognition that expanded autonomy of producers was a precondition for expanding the role of the market as a regulator of economic relations and proportions. Decentralization of decision making was necessary to increase horizontal communication. This decentralization has two aspects: 1) decentralization of production planning decisions from the central level down to the enterprises and 2) decentralization of certain planning decisions to the republics or local communal institutions of self-government. In the Yugoslav system, decisions concerning enterprise production such as what to produce and how to produce are the responsibility of the enterprise itself responding to both market signals and social plans. However, some decisions have consequences for the economy as a whole and are therefore made at the national level. This is a matter of macro-economic planning of the long-run rate of growth, redistribution of national income including distribution of development funds to economic sectors or regions in need of assistance, etc. Such

decisions cannot be made adequately relying solely on horizontal communication, contracts, and market regulation. Wlodzimierz Brus explains why:

In the course of taking the main macro-economic and long-run decisions, the market magnitudes, however, always play a secondary role compared with the primary element of direct confrontation of disposable resources and desirable effects along the generally accepted lines of development. It is just from this point of view that the author thinks it necessary for any type of socialist planned economy, the Yugoslav type included, to maintain the superior position of the 'headquarters' with regard to all other components of the organizational structure. (Brus 1973: 4)

Planning of this sort can be of three types: 1) command planning, 2) command planning in corollation with indicative plans, and 3) indicative planning. The first is typical of the Soviet model and is still practiced in some socialist countries like Romania even after reforms. The second type is more characteristic of Hungary after its reforms and China, which is now in the process of a major economic reform. The third type involves a set of indicative plans expressed through a standardized set of indicators and is characteristic of Yugoslav planning. The planning "headquarters" among these three types are not the same. Planning in the first two types is basically carried out by a central planning bureau. However, the Yugoslavs are committed to self-management at both the micro and the macro levels of the economy.

Decisions of an individual character are at the opposite pole from macro-economic planning. Individual freedom to choose one's profession and workplace and the consumer goods required to satisfy needs is viewed by Yugoslav socialists as an essential ingredient of self-managing socialism. This autonomy as workers and consumers requires market relations.

Self-Government - The Delegate System

The market, in this discourse is viewed as an economic mechanism of horizontal communication. The institutional framework of self-government, on the other hand, is a political mechanism of vertical communication. The operation of both mechanisms requires the basic freedom of individuals. Self-government has two aspects: 1) the self-government of socio-political communities and 2) the self-management of organizations of associated labour in the workplace. The delegate system is the essence of the former while workers' councils are the core institution of the latter.

The delegate system evolved out of the political infrastructure of representative democratic government behind enemy lines during the Nazi occupation. The basic principles of the system have been elaborated in a three-tiered structure of socio-political communities: 1) the communes at the lowest level, 2) the republics and autonomous provinces at the intermediate level, and 3) the federation at the highest level. [1] Each layer of the state structure has its own assembly in which delegates and delegations represent the population as citizens and as workers. The assemblies of the communes and those of the republics and autonomous provinces each have three chambers while the Federal Assembly has two. In the republican assemblies, a chamber of associated labour is comprised of delegates representing workers, a chamber of communes is comprised of delegates nominated by the assemblies of communes, and a socio-political chamber is comprised of delegates nominated by mass organizations such as the Socialist Alliance of Working People, the League of Communists, and other mass organizations. In the Federal Assembly, the Chamber of Republics and Autonomous Regions is comprised of delegations from each of the republican assemblies and the Federal Chamber is made up of delegates

elected by the Commune Assemblies from slates of candidates nominated by the Socialist Alliance of Working People. [2]

Unlike the western parliamentary system, the Federal Assembly (and the assemblies at the lower levels) have both legislative and executive power. The assemblies elect executive bodies at various levels. The executives are responsible for suggesting decisions that need to be made and implementing decisions that have already been made. Assemblies at each level elect judges to the Constitutional Court of Yugoslavia and the Federal Court. This structure is based on a notion of a democratic unity of power. There is a unity of legislative, executive, and judicial power. There is a unity of citizens. There is a unity of workers. There is a unity of nationalities.

The unity of citizens is achieved by mobilizing citizens to participate in political and economic decision-making at each level through their delegates. The Socialist Alliance of Working People in its organization of elections to assemblies at each level is charged with responsibility for creating a situation in which citizens fully exercise their right to an equal voice in political affairs.

The unity of workers is achieved by the organization of employees into Basic Organizations of Associated Labour (BOALs) in industries and business establishments such as banks, trading companies, insurance firms, etc. Delegations from these BOALs serve as representatives in the chambers of associated labour. Besides the BOALs, there are also Communities of Interest comprised of consumers and providers of social services and utilities who jointly make decisions concerning their activities and financing through their own representative bodies or assemblies.

In the 1950s, Edvard Kardelj, one of the designers of the Yugoslav political system wrote:

I have in mind the forms which arise as a result of the association of enterprises, institutions, communes or citizens to deal with their common problems. Such organizations include our economic chambers, business associations, social insurance unions, professional associations, etc. These organizations will gradually assume more and more of the central functions that are now performed by government organs, and through them the principle of social self-management will also prevail in the sphere of public services. The development of such vertically linked self-management entities is, therefore, a process that will eventually change the countenance of the central government organs and the method of their establishment. (Kardelj 1980: 46-47)

The unity and equality of nations and nationalities is recognized and their interests guaranteed by the federal structure. Equal representation is guaranteed to all republics and autonomous provinces in all bodies and organs of the federation. Decisions at the federal level are made by consensus and not by a majority vote. The constitution guarantees autonomy over local regional affairs to each and every republic or autonomous province. The political structure outlined above has gone through a process of development over four decades since the founding of the Federal Republic. However, what Kardelj wished to see in the 1950s has to a large extent been realized.

Self-Management - Workers' Councils

At the micro level, there are workers' councils that have their roots in the People's Liberation War as discussed in Chapter One. Over the past decades, this form of workers' self-management has been further developed. It has gone beyond the original concept of workers' participation which implied some sharing of decision-making power between workers and owners of capital or their representatives. Workers in Yugoslavia use means of production owned by the whole society of which their working collectives

are one part. As members of society, i.e. as owners, workers are entitled to control the means of production that they are working with and not just to participate in decision making. Workers' councils were first constituted by the Law on Workers' Self-Management of June 26, 1950, which states that all the powers and rights of management in all state-owned economic enterprises were given to work collectives which would be managed by workers' councils. This form of workers' self-management was first implemented in the industrial sector. After 1953, it was gradually extended to various social service sectors.

Workers' councils are the supreme managerial representative body in Yugoslav enterprises. Membership varies in size from fifteen to 120, depending on the size of the total workforce in the enterprise. In enterprises with less than thirty people, the whole workforce forms the workers' council. The council has monthly meetings to determine the economic plans of the enterprise, approve the accounts and the methods of income distribution including the size of the enterprise reserve fund and the distribution of personal income. The council issues regulations concerning internal administration and working conditions. The council's most important role, which is symbolic of the workers being masters of the enterprise, is the election of the management board which is responsible for day-to-day enterprise management. The council also appoints the enterprise director and can fire him or her as well.

After Basic Organizations of Associated Labour (BOALs) at the workshop level were introduced (by the 1974 Constitution), enterprise workers' councils were formed of delegates elected from the workers councils in each workshop or BOAL. However, the BOALs have the self-management autonomy to withdraw from an enterprise and form their own

independent production unit and/or to cooperate with other self-management units outside their own enterprise. This shift of self-management rights down to the BOALs is intended to increase industrial democracy by granting workers full say over joint projects and cooperative relations with other organizations of associated labour. This power is not exercised directly but through delegates who are responsible to their constituents in the BOAL. [3] Delegates to the workers' councils serve for terms of two years and no one may be elected more than twice in succession though reelections after a respite of two years are common. This institution of workers' self-management involves a level of participation which is unique with which no other country in the world can compare.

Basic Concepts

Yugoslavia has embarked on a unique path of socialist development. Its self-governing market socialism has gone beyond mere nationalization, beyond the rigid interpretation of Marx which led to the replacement of capitalist domination by a bureaucratic, authoritarian regime. Decentralization and destatization, which has as its goal a workable transfer of state functions to associations of free producers, represents the Yugoslav approach to achieving the Marxian goal of the withering away of the state.

It is perhaps helpful at this stage to briefly outline some of the basic concepts of Yugoslav socialism.

1. *Social ownership of the means of production* is a fundamental principle of the Yugoslav concept of self-governing socialism. It means that all productive resources are owned by the whole society. It differs from state or private ownership or even ownership by groups of associated

workers. Associated producers are put in charge of the direct management of means of production which belong to the whole society, but to no one group in particular.

2. *Organizations of associated labour* in Yugoslav theory include all forms of relations and institutions established among working people who collectively manage the socially owned means of production and dispose of the income resulting from their labour under the guidance of laws and the Constitution. There are three levels of organization of associated labour: 1) basic organizations of associated labour at the grassroots, for example the factory workshop, 2) enterprise or composite organizations of associated labour at the intermediate level, and 3) the chambers of associated labour at the highest level in the communes and republics. Any joint economic activity is calculated in monetary terms as specified in contractual agreements. Thus the right to income derived from the use of means of production establishes a link between the rights of workers to participate in management and the result of their work and their collective entrepreneurial performance.

3. *Free exchange of labour through self-managing communities of interest* is a process whereby the provision of social services as part of social income redistribution has been transferred from the domain of state control and state financing to the responsibility of self-managing communities of interest. In the communities of interests the delegates representing consumers and suppliers of services control financing and operations through agreements on a basis of equality. The services of these communities of interest include education, health care, social security, development and diffusion of science and culture, provision of public utilities, etc. They are subject to local control and financing.

4. *Self-management agreements and social compacts* are the essential forms of social planning and are intended to ensure democratic regulation of relations within and among organizations of associated labour, and eventually on a broader scale among socio-political organizations, business communities, organizations of associated labour, communities of interest, trade unions, the League of Communists, etc. Social planning is a process of communication beginning at the bottom whereby coordination of economic activity is achieved on the basis of compromise. Once consensus is obtained, those concerned have a legal obligation to live up to their agreement.

In summary, Kardelj give a very precise account of the Yugoslav orientation. He says:

In our country today...the decisive influence--not only in political and social decision-making, but also in managing socially-owned resources at all levels--must be wielded directly by the protagonists of the interests and aspirations of the basic strata of associated labour, that is by those who do not merely wish to preserve what has been achieved in socialist society, but who wish to create the necessary conditions for the latter's further progressive development towards the emancipation of labour and the humanisation of relations among men. (Kardelj 1981: 21)

Kardelj goes on to say that:

Direct and free exchange of products on the market was intended to expand the dimensions of the freedom of workers and workers collectives in their activities, that exchange being one of the criteria of labour productivity, quality of products, coordination between production and social needs, profitability of investments, economical work, etc. All of these relations ...find economic expression in the market-based distribution of the income of associated labour. To abolish this role of the market and market-based distribution of income, would mean to abolish the basic reason for its existence in our society.

This describes the underlying theory of Yugoslav efforts to build self-governing market socialism over a period of forty years which is the subject of the next chapter.

CHAPTER FOUR

FOUR DECADES OF SOCIALIST DEVELOPMENT

The concepts and practice of Yugoslav self-governing market socialism have evolved out of a process of development over four decades. The theory of Yugoslav socialism discussed in the foregoing chapter did not arrive on the scene all in one piece and at one time. It emerged gradually, step by step, out of a process of experimentation and reflection on the results of a steadily developing praxis. Analyzed from the perspective of political and economic development and the interaction of the market and self-management, the period since liberation can be divided into four phases. These are: 1) a period of centralism from 1945-1953, 2) a period of decentralization from 1953-1965, 3) further decentralization from 1965 to 1976; and a period of synthesis from 1976 to the present. [1] In what follows I will examine the growing role of the market in the Yugoslav economy and the gradual expansion of institutions of self-management and the interrelation of these two developments. I will focus on the degree of regulation of the market to try to develop a clearer picture of the actual relation between market and plan in the Yugoslav economy.

Centralized Administration, 1945-1953

In the immediate post-war period, the new Federal Republic of Yugoslavia faced the urgent task of economic reconstruction. The 1946 Yugoslav constitution was modeled on the 1936 Soviet constitution; it legitimated the creation of an elaborate system of centralized state administrative management of much of the social and economic life of the country. Market relations were deliberately restricted. Enterprises had no autonomy. The state fixed prices and determined the structure of production while cutting off all channels of horizontal communication between enterprises. Instead, each enterprise was tied by a vertical chain of command to central ministries. All enterprise profits were handed over to the state, which in return provided the investment funds and operating budgets of the enterprises in accord with the state plan. The centrally controlled banking system attempted to sum up the credit needs of the enterprises and to engage in credit planning. Wages were determined according to a national unified wage system and the size of each enterprise wage fund was set by the state plan.

In 1947 the First Five Year Plan was announced with the espoused goals of overcoming economic and technological backwardness, developing the state-owned socialist sector (i.e., heavy industry), and increasing the people's standard of living. Ambitious targets were announced such as to increase national income to 1.9 times the prewar level, to increase industrial output 4.9 times, and to increase agricultural output 1.5 times. Consumption was considered, but it had the lowest priority. However, because of the break with the Soviet Union and the Cominform, bilateral agreements were broken and trade was cut off so that the plan could not be realized. The national income and industrial and

agricultural output targets of the First Five Year Plan were not actually fulfilled until 1954, 1961, and 1959 respectively. During the 1949-1952 collectivization drive, agricultural production actually fell by one-third. (Horvat 1976: 43) Collective farming was not popular and when given the chance, the great majority of peasants rapidly retreated to private farming.

Workers' Councils

During the period of central planning, the role of workers' councils was very limited. The organizational structure of enterprises was hierarchical with a monopoly of management authority concentrated in the hands of the director. However, enterprise directors' exercise of management was not of an entrepreneurial nature. They merely organized the implementation of administrative orders passed down from the central ministries.

In 1950 after Yugoslavia was expelled from the Cominform, the government shifted its orientation and recognizing the importance of relying on the workers, called for abandoning administrative management of the economy. On June 27, 1950 a "Basic Law on the Management of State Enterprises and Holding Companies by Work Collectives" was passed to guarantee workers' right to manage the means of production through workers' councils. But this shift was very slight in practice and the limited intentions of the government can be seen from the text of the law itself. Consider, for example, the opening paragraph of the first article:

Factories, mines, and communications, and transport, trade, agricultural, forestry, communal, and other state enterprises, as public property, are managed by work collectives in the name of the social community within the framework of the state economic

plan and on the basis of rights and responsibilities determined by the laws and other legal regulations. (Horvat, Markovic, and Supek 1975: 256)

The first workers' councils were established as consultative bodies in a selected group of state-owned enterprises. Their primary function was to make recommendations regarding all questions of relevance to the management of the enterprise. The director was required to take these suggestions into account in his (seldom her) decisions. Conflicts between directors and workers' councils had to be referred to higher authorities. Workers' councils at this stage were caught between the old hierarchical system and the new democratic approach. The ambiguity of this situation required much intermittent external intervention to resolve disputes.

The Market

The market started to develop in 1950 with the diminishing of administrative controls. Policy adjustments in this period prepared the way for the more dramatic reforms of 1953. For example, foreign trade had originally been oriented toward the socialist camp. But with the economic blockade imposed by the Cominform, Yugoslavia, with her limited domestic capital resources and traditional links with western markets and passion to achieve rapid industrialization, naturally turned to her old trading partners in western Europe. This reorientation to western Europe became a factor in the reorganization of the domestic economy with the 1953 reforms.

Decentralization, 1953-1965

Indicative Planning

After 1953 the government began to replace centralized command planning with indicative planning in which basic macroeconomic proportions were regulated indirectly and not by means of detailed regulations. General guidelines were laid down concerning such basic proportions as the size of enterprise wage funds, basic capital formation, taxes, and allocation of budgetary resources. (Horvat 1976: 45) The plan ceased to be an administrative order. It had no binding force. It was set into action by auxiliary economic devices like price controls and credit policy and occasionally by direct controls. In order to facilitate development of market relations, economic (rather than administrative) means were used to regulate prices and rationing was abolished.

Price Policy

During the 1951-1952 price reforms, consumer goods prices were deregulated and determined entirely by the market with the exception of bread and sugar on which price ceilings were imposed. Producer goods prices increased somewhat but prices of basic inputs like steel and certain raw materials were never free of control. In 1954 it was decided to permit these prices to float below certain ceilings. (Horvat 1976: 174)

[2] By 1955 forty kinds of raw materials and semi-manufactured goods representing fifty percent of the total of these products were subject to price ceilings. (Milenkovitch 1971: 108) Presumably this, together with other forms of price regulation set by law, was meant to control domestic prices, preventing enterprises from raising prices unless they could demonstrate proof of rising production costs. Prices of industrial goods

were not entirely free either. The upper limits of prices in retail trade were also fixed by law. [3] During the agricultural collectivization drive in 1950, only some agricultural products could be sold at free market prices. In 1952, compulsory deliveries of agricultural products were eliminated and all prices (with a few exceptions) were permitted to fluctuate in the market. In 1960, communal councils were given the authorization to set prices for certain foodstuffs and services.

The intent of the reform was to increase prices for final products so as to absorb excess money available in the market and to further stimulate investment. However high prices for final products started to generate inflation. The government hastened to intervene. By the beginning of the 1960s, a system of administrative control of prices gradually came into being. As it was being established, the government repeatedly resorted to price adjustments to cope with ups and downs in the economy. Price policy swings together with an underlying discrimination against primary products produced uncontrolled oscillations between inflation and depression. Further reform was needed.

Credit Policy

The inflation of the early 1960s was also related to investment policy. Originally allocation of capital under administrative management was tightly controlled. This was then replaced by a credit policy which was based on an evaluation of enterprise business behavior relying on such criteria as the expected rate of return on investment, the enterprise's financial stability, its ability to earn foreign currency. The actual effect was to shift authority over enterprise working capital from government bureaus to bank managers. Banks would audit the enterprise's

accounts and could offer premiums or subsidies and credit at extremely favourable rates if they felt the enterprise offered good investment prospects. This policy shift hindered the flexible flow of autonomous investment funds and the autonomous use of profits. All enterprises, whether profitable or otherwise, were subject to these financial controls. Even though interest rates were regulated to encourage more efficient use of capital, unprofitable enterprises were willing to pay high interest rates if necessary to avoid bankruptcy since the livelihood of the members of the working collective was at stake. In 1956 control over working capital was given back to the enterprises.

During this period new banks were established. Originally the Yugoslav National Bank was the organ of central government control. Later on, communal banks controlled by local authorities began to play a major role subject to intermittent intervention from the centre. In 1962, business banks were created both at republic and communal levels and financed out of the joint reserve funds of enterprises under their jurisdiction. They granted credits to those enterprises too unprofitable to be eligible for regular bank credits. With the intention of allowing a more flexible credit policy, the National Bank decided to withdraw from direct involvement in enterprise financing. At this time the country was experiencing an economic boom. This relaxation of policy in conjunction with the current dependence on deficit budgets and an excessive money supply eventually resulted in a loss of control over the supply of credit.

Wage Policy

Wage policy was gradually relaxed from the previous practice of complete administrative control. Enterprises were given increasing autonomy in providing incentives to workers and labour productivity improved. However, if we look at the situation in detail, enterprises were still controlled by the government to a considerable extent.

After 1952, the distribution of enterprise income was regulated by a policy which set rigid restrictions on the ratio between the accumulation fund and the wage fund. It was difficult however to set a satisfactory ratio. If the proportion allotted to accumulation was too high, there was little incentive to run the enterprise more efficiently to increase profits and workers' wages. If, however, the proportion allotted to wages was too high, the enterprise had to be financed with loans rather than reinvested profits. Individual ratios were set for each enterprise until 1954 when the whole system was replaced with a new system which divided wages into two parts: accounting wages and wages out of profit. Since profits were not taxed, enterprises tried to direct profit into income by increasing wage rates and reducing norms. In response to this problem, in 1958 a progressive tax on the difference between enterprise income and accounting wages was introduced. However, since this tax seriously infringed upon enterprise self-management rights with regard to income distribution and restricted the size of the bonus fund, it aroused tremendous popular resistance. The trade unions intervened to support the enterprises in their protests against this new policy and to demand reform.

In the late fifties, the economy was expanding rapidly. Yugoslavia's growth rate was second only to Japan's. The South also experienced rapid

development of its industrial sector.

After abandonment of the First Five Year Plan, a series of ad hoc plans were implemented until 1957 when a new Five Year Plan (1957-1961) was drawn up. Enterprises, communes, and republics all had a hand in drawing up the plan in coordination with the Federal Planning Institute. The federal government produced the final draft on the basis of consultation and proposals from below. The targets for this Second Five Year Plan were actually fulfilled in 1960, a year ahead of schedule. Immediately thereafter the Third Five Year Plan (1961-1965) was launched with the intention of further accelerating the already high rate of growth. However, because high growth rates were being realized with increasingly unfavorable trade balance and inflation, the Third Five Year Plan was unable to meet any of its targets and was finally cancelled. In its place, ad hoc annual plans were drawn up to fill the gap. This failure produced disagreement and debate over how to create a better program for development. A pro-market tendency began to develop. Reform was just around the corner.

Development of Self-Government

In order to have autonomous producers competing in the market, decentralization of decision making was essential. The 1953 Constitution was seen as the legal starting point for the system of self-governing socialism. The Chamber of Republics and Provinces, which had been a second chamber in the old Federal Assembly, became less important. A new Council of Producers was created to share legislative authority with the Federal Council. In contrast with the Federal Council, which is elected by the citizenry as a whole in universal secret ballot elections,

the Council of Producers is selected by voters in the socialist sectors of the economy. Each sector is represented not according to the size of its workforce, but according to the size of its contribution to the national income.

At the republican and communal levels similar structures were created. The People's Committees of the Commune, for example, are composed of a Communal Chamber elected by all the residents in the commune and a Chamber of Producers drawn from the Workers' Councils of various local enterprises and cooperatives.

Communes were given greater responsibility in the name of taking a step toward the "withering away of the state." Communes took over responsibility for formulating and implementing economic and social plans.

At the same time, enterprises were given greater autonomy to draw up their own enterprise plans and dispose of enterprise income after fulfilling obligations to the state. At the end of 1957, questions concerning social funds and distribution of income were for the first time regulated by statutes rather than by administrative decrees. (Gorupic 1978: 124-25, 134)

Enterprises became legal entities free to contract with other economic entities to form trade associations for the purpose of jointly conducting economic activity. Even long-term association and cooperation became legal. In other words, enterprises gained a greater capacity for horizontal communication.

Enterprises began to assume greater responsibility for their business performance. This created an ever-growing interest and need among workers for more immediate influence on and direct involvement in decisions

concerning their future such as enterprise policy, use of assets, use of collective funds, etc. This eventually led to contradictions between institutions of self-management and the technical requirements of management and tensions between workers and technocrats.

Within the enterprise, the entire working collective had equal rights to elect and to be elected to the workers' council. In principle, the division of authority among the workers' council, management board, and the director was such that the workers' council established basic policies, the management board translated policies into specific operational directives, and the director carried them out. The director managed the day-to-day business of the enterprise according to policies and directives set by the workers' council and the management board. However, the director alone was able to act as the legal representative of the enterprise and to make commitments on its behalf. He was also accountable to the Court of Self-Management for the legality of enterprise operations.

With the intention of separating the party from the state and diminishing political control over all aspects of economic life, the name of the party was changed from the Communist Party of Yugoslavia to the League of Communists. This change in name was intended to signify a change in the role of the party to make it more closely conform to Marx's conception of a party as a political mass organization of the people. In 1958 at its Seventh Congress, the "Programme of the League of Communists of Yugoslavia" was endorsed. It proclaimed that, "In socialist society, internal contradictions are resolved less by the antagonistic reactions characteristic of a class society and increasingly by the conscious action of the leading forces and by continual evolution." (Horvat, Markovic and

Supek 1975: 266) Members of the League were to become ideological advisors linked to the population through a more widely based organization, the Socialist Alliance of the Working People of Yugoslavia.

The thrust of these institutional transformations was to give producers more autonomy in both the economic and political spheres and to open more channels for both horizontal and vertical flow of information. Through the establishment of Chambers of Producers at the various levels of the state, the desired two-way communication from the bottom to the top as well as from top down to the bottom was given an institutional framework. By decentralizing decision-making power down to the communes and enterprises, horizontal communication at the base was facilitated and emphasized. The new institutional context resulted in an economic boom. But in later years, economic problems of crisis proportions developed. The Yugoslavs were shocked. All their efforts to avoid the defects of opening up to the market appeared to be in vain. Further reforms were needed.

Further Decentralization, 1965-1976

During the Third Five Year Plan, economic instability became a major problem. The high rate of investment caused in part by government-imposed high rates of accumulation through taxation together with easy credit caused inflation. Price ceilings and controls complicated the situation. The multiplicity of exchange rates resulted in balance of payments difficulties which added to the chaos. Meanwhile the allocation of capital, which remained centrally though indirectly determined until 1965 caused greater inequality between enterprises and regions.

The 1965 reforms were intended to solve these problems and to improve

efficiency by expanding the scope for domestic and world market regulation of economic proportions. The reform was multifaceted. A single exchange rate on the new dinar together with currency devaluation was applied in an effort to achieve a balance of payments. Prices were adjusted to those of the world market to make Yugoslav enterprises more competitive. Import duties were reduced and indirect subsidies on Yugoslav products restricted, both of which had the effect of making imported products cheaper than those produced in Yugoslavia. Consequently, twelve percent of enterprises were merged between 1965 and 1967 to strengthen their ability to finance their own investment in the face of increasing competition. (Comisso 1979: 73)

Price controls were relaxed and prices rose rapidly.

The usually stable producers' prices in industry--already under inflationary pressure in 1963 and 1964--rose by 15 per cent in 1963 and an additional 10 per cent in 1966 before acquiring a new stability. Retail prices as well as the cost of living indices showed considerably greater increases during the same period (well over 50 per cent) as did the personal incomes of workers in money terms (over 100 per cent). On the whole, a completely new set of prices and income relationships was created in all areas of economic activity.

There was also a cutback in taxation on enterprises from a rate of sixty percent of enterprise income up to 1965 to only thirty percent after 1965. The reform affected the powers of both the enterprises and the state. The reform increased enterprise autonomy to an unprecedented extent.

Enterprises looked after their own investments and the use of its income since the central government had given up investment planning in 1965. To encourage economy in the use of labour and to lower the costs of production, enterprises were subject to a payroll tax. Tax on capital was minimized and finally abolished. The enterprise had full freedom to decide its own policy of income distribution. Net enterprise income after

taxes was divided into two parts: labour income and income as social capital remaining in the control of the enterprise to be used for reproduction. The ratio between these two parts was determined by the Workers' Council. These reforms enabled enterprises to raise wage rates and to obtain virtually unlimited investment funds in the form of domestic and foreign bank loans.

The reforms also altered the role of the central government in the management of economic life. It was no longer to be involved in the direct allocation of social capital. The 1963 Constitution decentralized much of the federal government's former jurisdiction down to the republics and communes. The 1965 reforms further decentralized some of this power down to enterprises and business organizations at the grassroots. The federal government lost a considerable amount of its power to mobilize or even coordinate economic activity.

To understand the impact of the 1965 reforms, it is necessary to give special consideration to the role of the banking system after 1959. We have seen that in 1961 the Yugoslav National Bank withdrew from the business of making direct loans and grants to enterprises. The communal banks became the basic and credit institutions. In 1962, independent non-governmental business banks were created by merging the reserve funds of enterprises. This multifaceted banking system exacerbated the problems arising out of the inefficient management of the National Bank, local political control of communal banks, and a deficient credit system. A reform of credit policy was implemented in 1967. Three types of credits were created, three equivalent types of banks were established, and three major changes were experienced as a consequence. (Horvat 1976: 213-215)

First of all, the new policy divided credit into three types:

investment, commercial, and consumer. Investment banks were created to finance fixed and working capital investments. Commercial banks took over responsibility for extending short-term credit. Savings banks handled consumer credit. The first consequence is that the special functions of federal, republic, and communal banks disappeared. All banks could conduct their transactions anywhere in the country. However, in practice, the banks tend to be confined to local economic activity due to local government controls. Second, a process of capital concentration has resulted from the profit orientation of the banks. The number of banks declined from 111 in 1967 to 74 in 1968. Third, the banks ceased to function as government agencies and began to function as jointly-managed enterprises composed of two types of partners: enterprises and socio-political communities from the federal to the republic to the communal level.

The thrust of the reform is to create a capital market in which enterprises are mobilized to reinvest in their own firms, to lend directly to other enterprises, to enter into profit-sharing agreements with other enterprises, or to become shareholders of banks inasmuch as they have a greater volume of capital left untaxed. On the other hand, banks have become autonomous, profit-sharing business entities with those who are capital subscribers (enterprises and government agencies) forming a management board composed of their delegates. Enterprises can now freely choose the banks with which they wish to do business, while banks must, in their own interest, pay primary attention to liquidity, security, and repayment of investment loans. Ever-expanding enterprise investment funds are thereby concentrated in and reallocated by the banks. Enterprises now grant credit to each other through the banks, freely engage in joint

investment ventures, and finance their own development, especially in large amalgamations. It is also possible now for Yugoslav enterprises to enter into various kinds of production and corporate agreements with foreign companies. This represents a drastic leap away from centralism.

In this process, the national banking system was also transformed. The Yugoslav National Bank is restricted to assisting global financial flows in order to obtain a desirable allocation of capital. Its ability to intervene has been preserved in the areas of expediting foreign trade with export credits and exchange insurance. It can also influence the general investment structure and regional allocation with federal investment funds earmarked for use in underdeveloped regions. After 1964, investment funds were generally handled by republican banks and national business banks and the investment banks. The idea behind this decentralization was to encourage capital to flow freely as a result of competition in a unified national market. In reality, however, the banks tend to confine their activity to a single republic. Even the Federal Investment Bank operates through republic branches, which tend to balance income and loans within the republic. This is a consequence of interventions by the republic authorities. The mobility of capital across republic boundaries has been further limited by mergers which have created single banks or associations of banks covering all the economic activity within a single republic.

Autonomous national banks were established in each of the six republics by the enactment of a law in 1971 and in 1972 in the two autonomous provinces of Kosovo and Vojvodina. Thereafter, nine national banks, one for Yugoslavia, one for each of the six republics and one for each of the two autonomous provinces all operated on their own. The only

limitation on the autonomous functioning of these banks is the stipulation that the republican and provincial banks "cannot trespass on the National Bank's prerogative regarding the currency and the financing of the army" and "their freedom to fix interest rates was restricted by federal laws" which set the rate of interest below the rate of inflation. (Singleton and Carter 1982: 142)

This transformation of the banking system has produced a situation in which heavy borrowing of capital from both Yugoslav and international banks continues largely uncontrolled and in isolation in each of the regions. The weaknesses inherent in this situation are quite apparent. Momir Cerez has pointed to problems arising in the "circulation of resources, their concentration and the coordination of investment in accordance with the planned structure." (Cecez 1981: 139) The result has been even greater inequality among enterprises and regions across the country. Underdeveloped regions, in particular Kosovo and Macedonia, have been left in a disadvantaged position. Less profitable but nevertheless essential enterprises have also suffered from underinvestment owing to the market orientation of the banks.

Eventually the Yugoslavs found themselves quite heavily in foreign debt, which was also partially triggered by the world economic crisis after 1973. The gap between the rich and poor regions continued to grow. The political situation became more and more tense. Social property began to degenerate into group property.

Student demonstration in 1968 centered around demands for decentralization, for democracy, and for equality. Economic reforms at the enterprise level created a disincentive to enroll new workers even though the rate of unemployment continued to grow. Students were among those unable

to find jobs. Nationalist upheavals in Kosovo in 1968 and Zagreb in 1972 shook the Yugoslav government. But the problem remains. Once again the Yugoslavs resorted to institutional reorganization to resolve the problem in a new "higher stage" of self-management.

A new constitution was drafted and passed in 1974. It emphasized the solidarity and mutual interdependence of the Yugoslav people, the correspondence between individual and common interests in the process of social development, the problem of the degeneration of social ownership into group ownership and increasing state interference in social life. Part two of the constitution outlines the rights of the Yugoslav people as "free and equal producers and creators whose labour serves exclusively for the satisfaction of their personal and common needs." It then goes on to state that:

Any form of the management of production and other social activities, and any form of distribution that distorts social relationships based on the above defined position of man--be it through bureaucratic arbitrariness, technocratic usurpation or privileges based on the monopoly of management of the means of production, or the appropriation of social resources on a group-property basis or any other mode of privatization of these resources, or in the form of private-property or particularist selfishness, or through any form restricting the working class in playing its historic role in socio-economic and political relations and in organizing power for itself and for all working people, shall be contrary to the socio-economic and political system laid down by the present Constitution. (Vanek 1975: 70-71)

In no uncertain terms social property was not to be viewed or handled as the property of those who created it, but rather of society as a whole. (Comisso 1979: 125) Measures were taken to resolve the problems outlined in the Constitution. Social planning was carried out from the early 1960s in an institutional context which can be described as polycentric. Among the three components: the work collectives, individual producers, and the government apparatus, the latter was the coordinator of the activities of

the first two and the administrator of the "common interest" in the fields of judicial justice, defense and public security, and foreign affairs. This arrangement was justified on the basis of an assertion that "the self-governing collectives are materially interested in maximizing their incomes and that the government and the parliament are able to create an economic environment in which autonomous decision makers behave in accordance with general social interests." (Horvat 1976: 57)

According to the 1974 Constitution, social planning was to be carried out by way of self-management agreements and social compacts concluded among basic organizations of associated labour (BOALs), enterprises, industries, units of government, and mass organizations. The picture of Yugoslav ideology presented in Chapter Three is based on the concepts of the 1974 Constitution. In 1963, efforts were made to decentralize power down to the communes. In 1974, decentralization was extended down to the workshops.

The impact of the reforms was felt in a number of areas. First, the broadening of local political power reinforced particularism. Collectives were tied to local territories since they did not have much room for individual action. In bargaining over planning, the political bodies were at an advantage since significant power had been granted to the political communities which were an integral part of the state apparatus. Second, integrated social planning precluded the autonomy of free producers and inhibited the free play of market forces. This was the expressed intent of the 1974 Constitution.

By realizing the results of their joint labour in terms of value on the market under conditions of socialist commodity production, workers, through direct linkage, self-management agreements and social compacts concluded by their organizations of associated labour and other self-managing organizations and communities, and by planning work and development, shall integrate social labour,

promote the entire system of socialist socio-economic relations, and control the blind forces of the market. (Comisso 1979: 72)

In 1976, the government passed the Law on Social Planning.

Enterprises began drafting medium-term plans covering all aspects of their business operations. They were also expected to make projections of enterprise needs for credit, housing, education, etc. that would require government or quasi-government agencies intervention. A five year plan for the entire national economy covering growth and investment rates, development targets for regions and sectors, etc. was then drawn up by the federal government on the basis of enterprise, commune, province and republic plans. (Comisso 1979: 125) Republic and federal plans were basically indicative and not imperative in nature. Enterprises were reorganized to make each BOAL a basic accounting unit and an independent legal entity.

Crisis, 1976 to the Present

Yugoslavia has a foreign debt of \$20 billion. Since 1980, real wages, the measure of purchasing power, have declined by nearly one-third...Unemployment stands at 1.2 million, or 13 percent of the labour force. (*International Herald Tribune*, Dec., 19, 1985)

The combination of an inflation rate as high as eighty percent, a cost of living rising as much as twenty-three percent in a single year, and a steady decline in labour capacity utilization greatly exacerbated the gap between the rich and poor republics in recent years. The crisis began in the late sixties but became particularly severe in the early eighties.

The 1976-80 Five Year Plan and the 1981-85 Five Year Plan both recognized the importance of developing primary industries like raw materials and intermediate goods. For the first time it was acknowledged

that the unbalanced development of the economy was the root cause of the recession. For a long time, emphasis had been placed on production of final goods for domestic and international markets. Under the 1976-80 plan, priority shifted to basics such as raw materials, energy, agro-industrial complexes, and mechanical engineering. The 1981-85 plan continued the same strategy. However, most of the primary industries are capital intensive and slow in recovering investment. Furthermore, the ceiling prices imposed in the 1950s continue to cast a shadow over the whole project. It is almost impossible for these industries to themselves finance their own expansion.

At the same time, the pooling of resources through self-management agreements between industries or banks, with no obligation to invest in other industrial sectors, has also offered little opportunity for expansion to these primary industries. Thus they have seen as their only way out the obtaining of foreign credits and loans. But this option is limited by a poor international credit rating. For these reasons, plans to expand these industries could not be fulfilled. Failure produced heated discussion as to how to interpret the economic crisis and what to do about it. What emerged was a Long-Term Programme of Economic Stabilization in 1981. The programme states that:

Neither individual workers, nor their economic organizations have been sufficiently motivated to strive to improve their performance. Economic necessity and market forces have not acted strongly enough and have allowed economic actors to behave uneconomically and irrationally. [4]

But only recently has it been recognized that the present crisis is not only economic but social and political as well. This realization is articulated in the *Critical Analysis of the Political System*, a government document issued in January 1986. [5] The Long-Term Programme

of Economic Stabilization proposed changes in the economic system and in the concepts of economic and social development to resolve the dilemmas of the current crisis. I'm sure its authors are sincere. Nevertheless, like other plans it remains more or less wishful thinking on paper. Consensus among powerful autonomous republics and provinces is difficult to achieve. Reallocation of funds from one republic to another is even more problematic.

Among Yugoslavs, two views predominate in discussions of the crisis. One demands a more liberal policy. This pro-market position holds that constant intervention to control the market prevents the proper functioning of the market. This produces further crisis which leads to more state interference. On the other hand, the views of the supporters of central planning argue that the operations of the market are central to the crisis though they acknowledge that the market is a prerequisite to maintain the independence of the organizations of associated labour. They argue that answer lies in planning carried out by a strong central government. These differences tend to correspond to regional differences. Yugoslavs from the developed North tend to prefer a more relaxed policy with more flexibility in the use of investment funds. Yugoslavs from the underdeveloped South tend to argue for the maintenance of a strong central government and allocation of resources according to socialist principles of equality. They believe that with a strong central government they can obtain better terms in the bargaining over reallocation of investment funds. In analysing the crisis, certain symptoms such as monopolization and inequality resemble defects of most market systems. But we must also remember that social planning or planning done through self-management agreements and social compacts has always been accompanied and affected

by the functioning of the market. In order to understand the crisis Yugoslavia is going through it is necessary to analyse the roles that plan and market have played in each of the specific aspects of the crisis. This analysis will be taken up in the next chapter.

CHAPTER FIVE

MARKET DISTORTIONS AND GOVERNMENT INTERVENTION

After forty years of persistent efforts to develop a new approach to building socialism incorporating the market mechanism and institutions of self-management and self-government, Yugoslavia in the eighties finds itself in a situation of crisis--the longest and deepest crisis in the country's history. [1] The future of the Yugoslav alternative to the Soviet model is being severely jeopardized by this crisis. The crisis distorts popular perception of the actual achievements of the effort to mobilize the market for development. Worse still, it reinforces the traditional bias against any role for the market within a socialist system. Although it is explicitly stated in the Long-Term Program that "these problems and disruptions have largely been created by the non-observance of economic laws and market criteria," it is nevertheless easy to conclude that the crisis is the product of the blind operations of the market. [2] The crisis exacerbates the conflict between centralizers and decentralizers within Yugoslavia. It is necessary to investigate to what extent the market has contributed to the crisis and whether, how, and why it has prevented proper proportional development of the economy. Such an analysis is essential in any effort to uncover the optimum proportional relationship between the market and planning (whether central or social planning).

According to the Long-Term Program:

The basic problems which characterize the present state of the Yugoslav economy are seen in the great disequilibrium of economic movement, disruptions in commodity-monetary relations, high inflation, balance-of-payments difficulties and external illiquidity. There are also considerable structural disproportions in the economy. All forms of expenditure have increased beyond real possibilities and income generated. Autarkic development is noticeable not only vis-a-vis foreign economies, but also within the country--within republics, provinces and communes, all the way down to economic organizations. There are very serious unemployment problems, especially among young skilled and highly skilled persons. (Lazovic 1983: 4).

Reading between the lines, we can see two facets of the situation.

On the one hand, the constellation of economic problems including inequality, high inflation, balance-of-payments difficulties, unemployment, etc. are all common phenomena in any market economy. On the other hand, the phenomenon of autarky from the republics down to the BOALs found in Yugoslavia is not a common characteristic of other market economies. Quite the contrary. The market is a mechanism of horizontal communication that serves to create connections between producers and consumers. By its very nature, it tends to reach across social, economic, and political boundaries. The rapid development of communication technologies in the twentieth century has generally produced an increasingly socialized discourse of production. Autarky is in direct contradiction with the active social cooperation and communication in accordance with the social division of labour required for the full development of a market economy. And yet in Yugoslavia, the expanding role of the market failed to break down many of the barriers between self-sufficient producers in different republics, provinces, and communes.

The economic problems of Yugoslavia cannot be properly analyzed simply as disfunctions of the market. It is necessary to examine the

causes and impact of autarky within the political and economic systems to understand the true character of the country's economic problems. In what follows three sets of related economic problems will be examined. First examined will be the inequality and isolation among the republics and provinces and extending down to the BOALS. This is reflected primarily in structural disproportions whereby more profitable final product production is relatively more developed in the rich republics and the less profitable primary industries are concentrated in the poorer republics and autonomous provinces. Second examined will be the high inflation and balance-of-payment difficulties that have arisen out of increased expenditures beyond real possibilities and income generated and thereby severely distorted commodity-monetary relations. Third examined will be the unemployment rate, which is the highest in Yugoslav history. In examining these problems, effort will be made to analyze just how much actual market regulation has been allowed in the Yugoslav economy.

Unequal Development Among Regions

The differences between the relatively developed North and relatively underdeveloped South are not a recent phenomenon. The line that divides these two parts of the country corresponds roughly with the historical military frontier between the Turkish and Hapsburg empires. The present day Republics of Slovenia and Croatia and the Autonomous Province of Vojvodina lie north of the Sava and Danube Rivers, the historical boundary between the two empires. The Republics of Bosnia-Herzegovina, Montenegro and Macedonia and the Autonomous Province of Kosovo lie to the south of these rivers. The Republic of Serbia proper, though south of the Sava-Danube line, is not formally considered one of the less developed areas,

even though some of its communes (in the Juzna Morava region) are among the poorest regions in Yugoslavia. (Singleton and Carter 1982: 210)

During the period of Hapsburg rule, the territory under their control was drawn into the first industrial revolution. But the South, under Ottoman influence, retained its largely subsistence agricultural economy. Even after the establishment of the Kingdom of Yugoslavia in 1918, "the former Hapsburg territories, which had enjoyed access to a central European market of some 60 million, and whose industries, lines of communication and financial institutions were developed to serve the needs of the monarchy, found themselves after 1918 forced to look inward to an underdeveloped balkan market of only 12 million." (Singleton and Carter 1982: 51)

Traditionally the Northern republics favoured a more liberal trade relations while the Southern Slavs preferred a more protectionist autarkic approach to economic relations. According to Bicanic (1973: 3):

This struggle between two conceptions continued through the interwar period and even after the socialist revolution. Not until the mid-sixties did it become clear to the majority of people that, even if the area of Yugoslavia were ten times larger and her income per head four times bigger, this would still not provide a basis for a successful autarchic policy. (quoted in Singleton and Carter 1982: 51)

Before World War II, the South retained its underdeveloped predominantly peasant economy with only a few mines financed with foreign investment. The North, however, began to develop primary manufacturing while foreign loans financed railway construction to facilitate transport of refined raw materials to Western Europe. In the postwar period, these differences were inherited by the young Federal Republic.

Large scale nationalizations of industry, mining, banking, insurance, major commercial operations and all foreign-owned property were completed

by 1948 following the enactment of the 1946 Constitution and further enabling legislation. Land, however, was not nationalized. The land reform of 1945 put land into the hands of the cultivators. Holdings could not exceed thirty-five hectares and large estates of absentee owners, banks, joint stock companies, churches and religious orders, etc. were confiscated and redistributed to those who had less than 20 hectares. (Singleton and Carter 1982: 103) In May 1953 after decollectivization, the permitted maximum size of private holdings was reduced to ten hectares due to a bias against private ownership. [3]

The First Five Year Plan was launched with an emphasis on strengthening and developing the socialist sectors of the economy, in other words, the nationalized sector. However, Yugoslavia was an underdeveloped country with a primary agricultural economy and had to marshal the savings required for investment in rapid postwar recovery and industrialization. Yugoslav communists chose to follow the Soviet centralized system and thereby attained an average gross investment rate of over twenty percent of national yearly income. This was done to develop certain basic capacities such as power, mining, manufacturing, and engineering. Rigorous methods were applied to squeeze the necessary savings out of the economy. These included low prices and compulsory deliveries for agricultural products and retardation of the rate of growth of general consumption and construction in such so-called unproductive areas as housing. (Vucinich 1969: 204)

Even though the First Five Year Plan could not be realized due to the disruptions caused by the split with the Comintern, certain underdeveloped areas did benefit from projects initiated according to the Plan. Horvat (1976: 61 and 63) points out that rapid development and overcoming of

economic backwardness on the basis of an accelerated development of the underdeveloped regions was always an important part of the agenda in making economic development policies. "Industrialization was thought to be the quickest possible method" for narrowing the gap between the developed and underdeveloped republics and provinces. This has produced a situation in which aid to assist development of the underdeveloped areas has become a permanent feature of government policy. However, though the underdeveloped republics were as independent as any other republics in Yugoslavia, their economies were based on relatively unprofitable agriculture and industries whose relatively poor long-term return on investment and low product prices handicapped their ability to be economically independent and their opportunities for better terms in competitive bargaining and trade. For this reason, their dependence on government aid has become a chronic feature of their underdevelopment.

Yugoslav policy toward the underdeveloped regions contains a major paradox. On the one hand, much concern has been expressed for the plight of the underdeveloped in the form of discussions, negotiations, and practical assistance. As time went by, aid to the underdeveloped regions became a priority item on the government's agenda with the sincere recognition that "the realization of the policy of faster development of the underdeveloped republics (Bosnia, Montenegro and Macedonia) and the Autonomous Province of Kosovo is also an indispensable condition for the harmonious and dynamic socio-economic development of the Yugoslav economy as a whole." (Durovic 1977: 7-8)

On the other hand, certain economic policies which discriminate against the peasantry by setting ceiling prices on raw materials, for example, completely wiped out the possibility for the underdeveloped

republics and provinces to gain strength to stand on their own feet without government assistance. The effort to overcome regional inequality was also sabotaged by four key factors: 1) dogmatic interpretation of "industrialization," 2) constant state intervention, 3) defects of the market, and 4) the impact of institutional changes.

Industrialization

Industrialization was generally interpreted as simply building steel mills, oil refineries, automobile factories, etc. Proposals were put forward such as that long-term programmes should be drawn up to encourage industrialization of backward areas or that economic relations should be redefined on the basis of natural, economic, geographic and historic factors; and natural resources and other available factors of production should be better utilized. It was argued that a flexible market should be created to facilitate exchange in a united national economy. [4] Nevertheless, all these suggestions were never implemented. In the end, the republics and autonomous provinces each pursued their own strategy of industrialization to build up or reequip their own separate industrial bases in a disjointed manner. Heavy industries like steel mills, automobile factories, etc. sprang up everywhere as well as certain light industries like sugar refineries and cigarette factories. Waste of resources was the inevitable result of this unnecessary duplication of production facilities. [5]

Everywhere agriculture was squeezed to provide the savings to finance industrialization projects. Industrialization was characterized by a drive to shift resources toward the creation of a modern industrial sector. This industrialization policy in each republic drained the

villages of vital, ambitious, and young workers who were recruited into the expanding industrial sector. This was in fact not a side effect, but the actual intent of policy toward the peasantry which, as Denitch (1976: 51-52) has expressed it, "is based on the assumption that they will gradually move into the industrial sector as it continues to expand and the ones who remain in the villages will become efficient small producers, increasingly part of the new modern social sector." This policy, he points out, is paralleled by a policy of pushing consumer goods rather than setting compulsory quotas "since the rising demand for available consumer goods proves to be more effective than terror in inducing the villagers to adapt their production methods to the market."

Agriculture was given free rein when the market was set up to be a regulator after decollectivization. Given the discussion in the last chapter, the naivete of attempting to give free rein to agriculture via the market in the Yugoslav context is beyond comprehension. The low priority given to agriculture in the allocation of investment funds and the price controls on primary agricultural products (sugar, milk and bread) reveal the reality of government policies toward the agricultural sector.

With the emphasis on industrialization, agriculture has been neglected. The primary industries like power, transportation, and raw materials were also neglected with the result that imports of raw materials became necessary in the sixties. When Yugoslavia experienced an economic boom in the late 1950s, wages rose but production of consumer goods lagged behind. Funding the high rate of investment for industrialization became increasingly difficult. This was because the peasants, with little incentive to increase production since prices could not cover

increasing costs of production, could no longer provide sufficient savings to meet the increasing demand for industrial development. Thus "the high industrial growth rates," Dennison Rusinow discovered, "were due more to the completion of many new factories..., to a better supply of domestic and imported raw materials (the latter reflecting the impact of western aid, as did an otherwise insupportable high investment rate) and to improvements in infrastructure (railroads, roads, power lines, mines and supporting facilities)..." (Rusinow 1977: 99) Most of the industrialization projects relied on foreign loans and modernization of industry had come to depend on importing advanced technology from the West. Yugoslavia found herself increasingly mired by the extraordinary disproportions of her export-import trade balance.

Efforts to develop exports forced Yugoslav producers into more final product production such as consumer durables which provided quick returns on investment. The more highly developed infrastructure in the North helped to make adjustments easier, while the less well-endowed South faced intransigent problems in attempting to catch up. Rusinow provides a typical example to illustrate the problem.

The steel mill at Niksic, Montenegro, a mislocated industry, began production in 1953, and waited eight years for a rail connection to the nearby Adriatic, more than ten years for a paved highway to anywhere and until 1975 for a standard-gauge rail line to the rest of the country. (Rusinow 1977: 99)

The growing disproportions of the industrial structure increased the gaps between developed and underdeveloped regions. The better infrastructure in the North, its traditional attachment to Western Europe, its more adequate supply of highly skilled labour, and its capacity to

generate capital all gave it considerable advantages over the underdeveloped regions of the South. This is revealed in economic indices such as investment allocation and social indices such as illiteracy rates.

ILLITERATES AS A PERCENT OF THE POPULATION
OVER THE AGE OF TEN
AND
PERCENT OF POPULATION WITH SECONDARY SCHOOL EDUCATION

	% of Illiterates (1971)	% with Secondary School Education (1976)
Yugoslavia as a whole	15.1	15.0
Slovenia	1.2	23.0
Croatia	9.0	19.0
Vojvodina	9.0	17.0
Serbia Proper	17.6	15.0
Montenegro	16.7	14.0
Macedonia	18.1	11.0
Bosnia-Hercegovina	23.2	11.0
Kosovo	31.5	7.0

Source: *Statistički Godisnjak Socialist Federal Republic of Yugoslavia* (reproduced in Singleton and Carter 1982: 215)

Great disparities in per capita incomes, productivity, social services, and general development were apparent in the early fifties and grew worse thereafter. According to Rusinow:

In 1953 social product per head of population in the more developed regions of the North was 110 percent (and in Slovenia 182 percent) of the countrywide average, while that of the underdeveloped republics south of the Sava-Danube line (therefore including Serbia proper and the Belgrade area) was 71 percent and in Kosovo, the poorest region only 53 percent. By 1975 social product per head in the developed regions had increased to 116 percent and that of the underdeveloped regions had fallen to 67 percent (and in Kosovo to 42 percent) of the Yugoslav average. (Rusinow 1977: 99-100)

Singleton and Carter provide the following table to illustrate the growing disparities.

INDICES OF NATIONAL INCOME PER CAPITA (Yugoslavia = 100)

	1947	1962	1976	1978
Group 1 (above national average in 1947)				
Slovenia	175.3	198.5	201.7	195.3
Croatia	107.2	121.3	124.3	129.2
Vojvodina	108.8	103.4	116.6	123.6
Group 2 (below national average in 1947)				
Serbia proper	95.6	96.0	98.3	96.6
Bosnia-Hercegovina	82.9	72.7	64.2	66.2
Montenegro	70.8	66.3	70.3	67.7
Macedonia	62.0	57.1	68.1	66.2
Kosovo	52.6	34.0	32.2	26.8

Source: *Statisticki Godisnjak Socialist Federal Republic of Yugoslavia* (reproduced in Singleton and Carter 1982: 221)

Despite the fact that in the late 1950s consumer goods and agricultural products were deregulated in order to raise living standards, the real impact on investment reallocation and living standards was not felt until 1961. Policy shifted to grant priority to economic sectors that could accumulate income quickly and were easily taxable. This was seen as a better way to provide resources for the development of new industries while raising the standard of living. However, the high rate of population growth in the South meant that a larger increase in gross social product was required to produce a per capita increase in social product equivalent to that of the North. The gap has narrowed over the years as can be seen from an examination of birth rates in the two regions but it has not yet been eliminated.

BIRTH RATES (live births per 1000)

	1960	1975	1979
Yugoslavia as a whole	23.5	18.1	17.5
Slovenia	17.6	17.7	17.7
Croatia	18.4	14.7	15.0
Vojvodina			
Serbia proper	18.0	15.9	15.2
Bosnia-Hercegovina	34.1	19.1	17.5
Montenegro	28.1	18.1	18.3
Macedonia	31.7	22.7	21.3
Kosovo	44.1	35.3	32.2

Source: *Statisticki Godisnjak Socialist Federal Republic of Yugoslavia*
(adapted from Singleton and Carter 1982: 229)

With the passage of time the gap in standards of living and levels of general development between the developed and underdeveloped regions has actually widened. At the heart of the problem is a basic contradiction between the industrial and agricultural sectors. The problem exacerbates differences between and within regions. Despite the overall decline in peasant population since the end of World War II, fully one in three Yugoslavs still live in rural villages. If one takes into account that part of the urban population that still maintains vital links with the villages, the situation in the countryside directly affects one half of the population. Links between urban and rural dwellers are varied. Peasant immigrants from less developed regions like Bosnia and Montenegro who migrate to Belgrade in Serbia are typically major breadwinners who are seeking income in the city to send back to their families who have remained in the economically depressed villages. Among those who do not migrate out of the underdeveloped South are many who work in factories and at the same time retain a small piece of land on which they engage in

subsistence farming. This retards both the development of agriculture and of industry. Low productivity characterizes both sectors since such farmer-labourers are responsible for a high rate of absenteeism in factories in the underdeveloped regions. [6]

Boris Vuskovic provides a disturbing picture of the situation in the villages:

...the fact nevertheless remains that the village has to a considerable extent remained materially and socially neglected, as even the most superficial examination reveals. Thus the introduction of basic facilities, like water or electricity, remains a major event in the life of a village community. A significant proportion of the village population are without basic social benefits, like pension or free health provisions, and the great majority live in extremely difficult conditions. Eighty percent of the village population has income below the national average and one fifth lives on the poverty line. Culturally, the village is a desert, without cultural institutions and a permanent intellectual cadre. (Vuskovic 1976: 25-26)

Vuskovic also comments on the situation of peasant immigrants in the cities:

The village is the source of urban labour situated at the bottom of the social scale. Those who take the worst and most despised jobs (seasonal labourers, domestic servants, etc.) come from the village, as does a majority of manual and semi-skilled workers. But the accelerated process of social differentiation witnessed in Yugoslav villages today is not so much due to social inequality traditional to the peasant community as to the latter's present unequal and subordinate relation to the town. (Vuskovic 1976: 26)

State Intervention

Besides dogmatic interpretation and autarkic pursuit of industrialization, another factor contributing to the Yugoslav economic crisis is the fact that the state has always played a crucial role in allocation of development investment. From the period of centralized administrative management on, development investment was manipulated by the central

government through the national bank. Each republic and province would try to obtain as much as they could from the central bank since the criteria for funding were vague and flexible. Direct communication between regions remained very underdeveloped. The bureaucratic machinery at the centre was dependent of whatever information was sent from below. The decisions which determine which regions receive state funds for development investment are basically political. Although the main criteria for determining which republics and provinces should be viewed as underdeveloped and deserving of assistance has remained that of national income per capita, there is evidence that the application of this criteria has been somewhat arbitrary. For example, during the First Five Year Plan Bosnia, Macedonia and Montenegro were chosen as target areas for special treatment to promote rapid industrial expansion. The very depressed region of Kosovo (then known as Kosmet) was not included however. During the Second Five Year Plan, Kosovo was granted priority status while Bosnia-Hercegovina was excluded on the grounds that its per capita investment had risen to a rate higher than the national average. However, Macedonia and Montenegro remained on the priority list despite the fact that their per capita investment rates actually exceeded that of Bosnia-Hercegovina. (Singleton and Carter 1982: 213) It seems that the real criteria behind state allocations of development assistance is political, a question of connections. This seems to be a common problem in all the existing socialist systems.

Underdevelopment is a relative notion. In a very real sense, every republic and province in Yugoslavia could legitimately claim to be underdeveloped and in need of development assistance. There was a natural tendency for all regions to want to develop their industries and

supporting infrastructure. There was a tendency within the republics and provinces to think only in terms of their own autarkic development, instead of the integrated development of the Yugoslav economy as a whole. Although the state allocated large sums to foster industrial expansion and develop infrastructure in the depressed regions, even larger sums flowed into the more developed republics where the bank could ensure a rapid and secure return on investment. Development in the less developed regions was much more costly as can be seen by the relative investment costs of electricity production in the different republics and provinces.

INVESTMENT REQUIRED TO PRODUCE ELECTRICITY
(in dinars per kilowatt hour at 1956 prices)

	1947-1952	1955-1956
Slovenia	55.2	36.3
Croatia	104.3	92.4
Serbia	177.1	113.0
Bosnia-Hercegovina	241.7	88.0
Macedonia	353.9	219.7
Montenegro	729.3	541.9

Source: Singleton and Carter (1982: 220)

The "particularism of centralism" was reinforced by the diverse national composition of the Yugoslav federation. During the early years of compulsory redistribution, some income generated in the more developed North flowed to the less developed South. This situation, however, generated increasingly vocal discontent in the North. Much of the early industrial investment was in heavy industries in the South, particularly metallurgical and chemical industries, which are characterized by a

relatively slow return on capital investment. For this reason, it would be a long time before the less developed areas could make much of a contribution to national income. Furthermore, the less developed regions have had little prospect for catching up with the more prosperous regions inasmuch as their eventual return on capital is much lower than in areas where infrastructure is already well developed and where there is a more experienced, better trained and therefore more productive labour force available. (Singleton and Carter 1982: 220)

Debates over the process by which investment volume and structure should be determined and the priorities whereby sectoral and regional investment should be allocated have reflected a general desire for a noncompetitive capital market in which distribution of funds would be in accord with both the profitability of projects and the creation of a desirable investment structure. In essence, the debate has centred around whether the less developed regions should compete with more developed regions over investment funds granted on the basis of applicants economic strength. The two sides in the debate reflect the conflicting interests of the more and less developed regions of the country.

Centralizers have argued for a high rate of accumulation and investment. Opponents argued that the high rate of investment had left little for the workers and had blunted economic incentives. [7] The heart of the dispute actually concerned the regional allocation of investment as well as the amount of investment. This disagreement was reflected in the actual development of investment policy.

In the First Five Year Plan, the allocation of investment resources came directly from the central budget with its priority of building the basic infrastructure of an industrial society. During this period as

discussed above, the less developed regions were given considerable assistance but they did not benefit as much as the more developed regions with their superior infrastructure, particularly communication facilities. After the failure of the First Five Year Plan, special measures were introduced during the period of one year ad hoc plans. The less developed regions were aided with "interest-free credits, investment credits at preferential interest rates, cession of repayment instalments, budgeting subsidies, etc." (Singleton and Carter 1982: 222)

In 1954 the government set up a General Investment Fund under the Yugoslav Investment Bank which distributed funds according to a system of

Public bidding in which enterprises interested in getting investment funds...competed by offering rates of interest. Then the Investment Bank awarded the funds to the highest bidders, after evaluation of the project by a committee of experts, which included government officials. The whole procedure was in fact liable to more or less informal, but effective, pressure by the politicians and final *de facto* control by the political bodies. (Bicanic *Economic Policy* 1973: 125; quoted in Singleton and Carter 1982: 222)

Does not this description sound very much like the following?

Each higher level draws resources for its own "priority projects" and other special requirements before the balancing of accounts even begins, and thus programs into the system a kind of 'red shift' for those below;...(Bahro 1981: 155)

The latter quotation is a description of the informal process of "planning" criticized by Rudolf Bahro in his study of the hierarchical information order in the centralized models of "actually existing socialism." The two models are different inasmuch as the enterprise is given more room to manoeuvre within the Yugoslav system. However, how great is this difference cannot actually be determined until the question of who actually makes the major crucial decisions for enterprises has to be discussed in the next chapter.

With the establishment of the General Investment Fund in 1954,

enterprises gained the right to make investment decisions themselves. With the creation of a Federal Fund for Accelerated Development as an integral part of the 1965 reform package, the method of aiding the less developed republics and provinces was changed. The central government transferred credit to the individual investment funds of underdeveloped republican and provincial governments who in turn granted credits to enterprises and development projects. Capital for these investment funds was accumulated by imposing a levy on the gross material product of the socially owned sector according to a percentage set by mutual agreement of all the republics and provinces. From 1966-70 the levy was 1.86 percent; from 1971-75 it was raised to 1.94 percent and from 1976-80 it was raised again to 1.97 percent. Beginning in 1971, most of the capital accumulated in the Federal Fund for Accelerated Development has come from compulsory loans "made by organizations of associated labour carrying out economic activities; on the basis of natural determined proportions, and since 1976 other resources have been raised under self-management agreements."

(Singleton and Carter 1982: 223-224) In other words, the resources for the fund were previously levied on income and were distributed as grants-in-aid, but since 1971 they have been accumulated in the form of compulsory repayable loans determined according to the business funds of organizations of associated labour. (Trifunovic 1980: 98)

In the 1976-80 social plan of Yugoslavia, the Fund for Accelerating Development was renewed and commitment made to provide supplementary assistance to the underdeveloped republics and the province of Kosovo with an amount equal to 0.93 percent of Yugoslavia's gross material product. The underdeveloped regions were also promised a fair allocation of foreign exchange in conformity with federal law, allocation of the largest share

of World Bank credits, and allocation of a portion of other foreign credits. (Durovic 1977: 88) The expectation was that the Fund would contribute an average of thirty percent of the total investment in the underdeveloped regions with a considerably higher proportion in Kosovo. This was, however, actually a reduction of the proportion contributed in the 1971-75 period as can be seen from the following table.

PERCENT OF INVESTMENT CONTRIBUTED BY THE
FUND FOR ACCELERATED DEVELOPMENT

	1971-1975	1976-1980 (planned targets)
Bosnia-Hercegovina	22.1%	16.0%
Macedonia	30.1%	24.0%
Montenegro	33.5%	28.0%
Kosovo	70.8%	60.0%

Source: *Policy and Results of the Development of Economically Underdeveloped Republics and Autonomous Provinces in Yugoslavia* (Belgrade 1977; reproduced in Singleton and Carter 1982: 224)

It was recognized both in the 1976-80 and 1980-85 plans that the less developed republics and Kosovo are entitled to special assistance. What is distinct about the post 1965 period is the decision-making powers of republican and autonomous provincial governments concerning the allocation of resources that are no longer subject to restrictions set by the national plan. At the same time, these governments are not required to themselves participate in financing their development projects. The Fund serves as a channel funneling resources to provincial and republican governments. These political bodies determine how the funds are to be used. Thus the already existing particularism is further nurtured. Eventually these economic issues produced a political crisis.

In the early 1970s, the already dissatisfied Northern republics of Croatia and Slovenia became even more annoyed with the situation. Even though responsibility for economic planning and control had been transferred to the republics, the Croats and Slovenes felt the autonomy of their republics was being undermined by compulsory extractions to support the numerically preponderant underdeveloped South. It was this issue that provoked expressions of Croatian nationalism in political disturbances in 1971. (Rusinow 1977: 290) On the other hand, the grievances of Kosovo were recognized as legitimate. It was no accident that the recognition of Kosovo's need for special assistance came in the wake of protest demonstrations by the Albanians of the province in 1968. Further political protest in Kosovo and in the Albanian-speaking districts of Macedonia revealed that these grievances remain and represent a vital threat to the unity and stability of the Yugoslav nation.

Obviously, control through planning of development investment has not been very effective in checking the growing gap between developed and underdeveloped regions. The resulting tensions have fed already growing regional particularisms.

The Market and Inequality

Thus far we have discussed the impact of dogmatic autarkic interpretations of "industrialization" and constant state intervention in the effort to overcome regional disparities. The question must be asked, however, "Has the market played a role in this situation?" The answer is yes. In 1961 banks were transformed into profit-making enterprises from their former role as government agents disbursing investment funds. The purpose of this transformation was to create a capital market. This

change, together with the creation of the Fund for Accelerated Development, meant that development funds were no longer available to the federal government through the Yugoslav Investment Bank. Development funds were now controlled by the republics and autonomous provinces. Given the profit orientation of the market regulated investment system, there was little incentive for investment capital to flow into the less developed South where productivity and returns on investment were low relative to the more developed North. At the same time, the less developed regions were unable to generate sufficient capital by themselves. The gains won by the 1965-66 reform which permitted prices of agricultural products to rise according to market signals and thus benefited the less developed more rural regions, were unfortunately cancelled out by unremitting inflation of the costs of agricultural inputs, especially fertilizer. The economic reforms of 1965 were unable to reverse the tendency for the economic disparities to grow.

The market further aggravated the regional particularism inherited from the era of centralized administrative management and exacerbated the dismemberment of the national economy. The issue was debated in the early sixties. Again the centralizers argued that effective central planning was essential to stop the disintegration of the national economy. In opposition to this position, decentralizers argued that the current economic difficulties were attributable to overcentralization and mismanagement. They argued that decision making, including investment decisions should be regulated on the basis of market criteria. At a conference held in Zagreb in 1963 sponsored by the Yugoslav Association of Economists and the Federal Planning Bureau, the problems of the economic system were discussed. Two studies provided the basis for discussion.

One was prepared by Branko Horvat and his associates and was known as the Yellow Book (the colour of its cover). The other study, the White Book, was prepared by a group of Zagreb economists. The Yellow Book suggested the immediate cause of the recession of 1961-62 lay with a faulty investment structure and hasty application of new policies. The White Book argued that excessive centralization and faulty functioning of the market mechanism owing to excessive intervention were the prime source of the problem. (Milenkovitch 1971: 124-27)

Comisso argues that planning and political transfers of resources are essential to hold regional inequality in check. (Comisso 1979: 101-102) Horvat states bluntly that "If within a country there are two regions whose levels of economic development are separated by a considerable gap, and the market is left to operate on its own accord, the gap is likely to widen." (quoted in Milenkovitch 1971: 183) Again in 1983, Horvat maintained that "if a national economy is left to operate of its own accord in a laissez-faire fashion, the initial regional differences in development will tend to magnify and soon a process of polarization will set in." (Horvat 1983: 13)

In 1982 speaking on "The World Economy from the Socialist Viewpoint" at a special session of the International Economic Association, Horvat further explained the tendency of regional disparities to grow over time.

...the empty cells of an input-output table of an underdeveloped region make it necessary that each increase in output be preceded and accompanied by purchases of capital and intermediate goods from a developed region. Thus the growth of the *developed region* will be accelerated. The effects are surprisingly great. Even if the developed region makes a net financial transfer as a pure grant to the other region, the output will increase more in the former than in the latter. The rich become richer even when engaging in philanthropy. (Horvat 1983: 13)

Horvat cites Yugoslavia and Italy as examples:

The regional differences in terms of per capita output between North and South in Yugoslavia are 2:1. If 100 million dinars are spent in the South, the northern output will increase by 123 million and southern one by only 105 million dinars...Similar were the findings of Chenery in Italy. Here the initial investment of 150 billion liras in the South generates an increase of income of 160 billion in the industrial North and of only 131 billion liras in the underdeveloped South. (Ibid.)

Especially in this case of unbalanced development, it seems to be clear that the market needs to be regulated by some form of planning.

Institutional Change and Inequality

Institutional changes also contributed to the problem of regional inequality. Constitutional federalism is a very important aspect of the Yugoslav conception of self-governing socialism. Yugoslavia is made up of not only six self-governing republics and two autonomous provinces, but also hundreds of local governments or communes. In the process of evolution of Yugoslav self-management, communes were gradually entrusted with ever-wider powers. Localist tendencies are also a factor in the problem of regional inequality.

In 1952 the commune replaced the local people's committee. Two chambers, the Commune Chamber and the Chamber of Producers, replaced the Council of People's Committees. The Commune Chamber represented all voters in the commune whereas the Chamber of Producers consisted of representatives elected from various work collectives in the socialist sector including industrial and commercial enterprises and agricultural cooperatives. Representation was apportioned according to the proportion of each group's economic contribution to communal income, instead of according to the number of working people represented. Consequently, "as these values were calculated on the basis of official prices for the

products," Pusic concludes that because of "overvaluing industrial and undervaluing agricultural production, the result was an over-representation of the non-agricultural sectors in the Chambers of Producers--a result calculated to stabilize the dominant role of the working class." (Pusic 1975b: 134)

In 1955 the commune form of local government was made universal. The distinction, thereafter between rural and urban local government, between rural communes and cities, was obscured within the form of a single type of local unit. This formal elimination of the distinctions between city and countryside ignored the disadvantages to those communes whose whole income was derived from agriculture as well as to the agricultural sectors within a "mixed" commune.

Communal autonomy, legitimated by the Constitution of 1963, left but few responsibilities for the federal government and reinforced a situation in which horizontal communication was largely blocked and the rich communes got richer while the poor relatively poorer. Thus disparities were not only prevalent among the republics and provinces, but also at the local level among the communes. There are individual communes in the richest republics of Slovenia and Croatia that are as poor as communes in Macedonia or even Kosovo. (Singleton and Carter 1982: 219)

What has happened in effect is that "economic policy in the framework of the individual socio-political communities has led to a closing off of the market and to an erosion of the unity of the Yugoslav economy." (Jaksic 1981: 249) This is because "Autonomy in this case meant self-sufficiency, 'making a go' of the company or the commune without further straining the state's resources." (Zukin 1975: 21)

Inequality among regions has been exacerbated by local particularism

which has its roots in historical differences and tensions in a multicultural country and made worse by the Soviet style centralism of the immediate postwar period. However, the regional inequalities have further deepened in the process of Yugoslavia's independent pursuit of self-governing socialism. The drive for industrialization sharpened differences between industry and agriculture. These differences have been reinforced by the market mechanism combined with changes in the state structure and therefore between developed and less developed regions. Zukin puts it well when she states that "gaps between richer and poor individuals, regions, and republics may be created by the industrialization policy, reinforced by self-management, intensified by market socialism, and justified by social differentiation." (Zukin 1975: 19)

If property is socially owned and the property owner is the community of associated labour who are making decisions of their own with the help of developed channels of communication, how can they end up disowning themselves by splitting their property and even themselves at the various levels? In order to understand this paradox, we have to go beyond it to address the key political issue of who really is making these decisions.

Inflation

Inflation is generally viewed as having been originally generated by excessive investment in economic development and to have been sustained under conditions of market socialism and expanded self-government. Inflation first appeared at the end of the "successful" Second Five Year Plan (1957-61) during which industrial production increased by seventy percent and the growth of national income was 8.6 percent higher than what had been projected in the plan. Most of the key targets were exceeded by

1960 as can be seen from the following table.

SECOND FIVE YEAR PLAN, 1957-61, TARGETS & ACHIEVEMENTS

	Target % of growth	Achievement (1960) % of growth
National income	54.4%	63.0%
Industrial production	70.0%	70.0%
Agricultural production	41.2%	59.8%
Exports	75.4%	76.7%
Imports	41.9%	70.5%
Personal consumption	34-40%	45.8%

Source: *Social Plan for the Economic Development of Yugoslavia*
(Secretariat for Information, Belgrade, 1961: 47; reproduced in
Singleton and Carter 1982: 131)

However, this phenomenal success was achieved at the cost of incurring an unfavorable balance of payments. Exports paid for 87 percent of imports in 1956. By 1961 this figure had dropped to 69 percent. The trade deficit increased nearly six hundred percent. Furthermore, the pattern of investment was perverted by artificial tariff protection and subsidies for certain favored industries. The irrational investment structure produced a crisis of overproduction in some sectors and shortages in others. Simultaneous inflation and unemployment soon brought on a major recession. It was in this context that the 1961 reforms with their expanded role for the market and enterprise self-management were introduced. Enterprises were given the right to decide their own levels of income distribution which led to income increases bearing no relation to increases in labour productivity. This merely further fueled the inflation.

Despite this inflation and other signs of a coming crisis, a hasty decision was taken to transform the economic system by adjusting it to the world market in the belief that the elusive goal of efficiency could be attained by opening up competition within the domestic market and entering the competitive world market. With this intention, the central government adopted a free trade policy as part of the 1965 reforms. However, the Yugoslavs recognized that the market, the domestic and especially the world market, was not entirely competitive. In order to compete in the world market, Yugoslav producers, relatively weak in financial resources, had to amass social capital. Amalgamation was encouraged.

Aleksandar Bajt has pointed out that:

Even more systematically that before the reform, taxes and contributions were collected proportionately to personal incomes whereby labour became relatively expensive. The land and capital used by enterprises were considered as free goods. Inflation, which was submerging the economy in consecutive, each time bigger, waves was increasingly transforming the interest rate on credits into an actually negative rate, thus stimulating capital intensive investments, an inadequate use of capital and unemployment. (Bajt 1986: 53)

Easy terms for borrowing in the world capital market in the 1960 and early 1970s also intensified inflationary tendencies. With widened self-management powers, enterprises and banks and other economic organizations also expanded their autonomy to establish economic relations with foreign partners. Commercial foreign trade corporations and banks had been government units during the period of administrative planning and in the early period of self-management. To some extent they had served as a means for state regulation of the economy. With the new reforms, they became independent self-managing business corporations. Owing to their previous monopoly position in administrative management in the immediate postwar period, at present the trade companies and banks still retain a

predominant role in the organization of production. With their inherited privileged position, they enjoy rich resources, both those taken over from the government and those acquired through joint stockholding with large production units. No other enterprises have the resources to compete with them because of their extensive trade and financial operations, contacts within the country and abroad and their accumulated social capital.

(Gorupic 1978: 142) Production enterprises have become increasingly dependent upon these banks and trading companies. A capitalist phenomenon has reappeared in the socialist market economy, i.e., monopoly through the merger of productive capital and financial capital. This phenomenon also stimulates inflation.

A "contractual market" has emerged in Yugoslavia. A contract is a legal means of economic communication between enterprises. In comparison with previous administrative management practice, the contract theoretically legalizes an enterprise's autonomy to establish economic relations at all levels from the federal government to individuals. Contracts in Yugoslavia are mostly found in the form of self-management agreements between participants in an economic activity. Self-management agreements, regulated by such laws as the Law on Associated Labour and the Law on Social Property, cover reciprocal rights and duties in mutual agreements between production and trade organizations concerning prices, pooling of labour and resources for joint investment, joint production, joint marketing, the use of patented inventions, etc. (Frimerman 1984: 260-271)

Realistically in the conditions that prevail in Yugoslavia, the contract has become a license for monopolies to take advantage of their weaker partners. In a situation where one party is dependent on the other

economically, legal means like contracts which recognize equality before the law cannot eliminate one party's dependency upon the other. For instance, owing to the scarcity of foreign currency, an export-oriented company is able to obtain low prices for raw materials from its partner, an import-oriented enterprise in a relation sealed with a legally-binding contract. Why? Because the import-oriented enterprise depends upon its partner for foreign currency to obtain the materials or technology it needs. [8] In one way or another, monopolies can manipulate other enterprises through self-management agreements over economic activities including the lending activities of banks. In the end, prices spiral and so do incomes. Social planning carried out by autonomous producers in the form of self-management agreements and social compacts was designed to overcome the inequities of the market. The result has been just the opposite. Bajt sums up the situation.

It appeared that the new institutionalized system was much more successful in dismantling the autonomous forces, the markets and business functions in enterprises--primarily through imbalanced prices of factors, negative interest rates, the overrated dinar and personal incomes divorced from productivity--than in establishing a mechanism for macro-management of the economy capable of replacing, at least to some extent, the "anarchical" market. (Bajt 1986: 54)

Attempts to use price controls to contain inflation have had a negative impact on economic efficiency. Until 1981, seventy percent of prices were administratively set by various levels of government. In 1986, forty percent of prices remain under administrative control. Price controls inhibit the maintenance of price equilibrium. The reason for this can be seen by considering an ideal market. If, at a given price, the demand for goods is higher than the supply, a new equilibrium price will be established as the price rises. However, in a situation of price controls, even if demand exceeds supply, prices cannot be raised and

therefore it is impossible to reach a new equilibrium price. The current market price of the product is then lower than its equilibrium price. The larger enterprises are at an advantage in such a situation because most of them are export-oriented in a situation where their costs of production are kept artificially low. Additionally in the Yugoslav economy, the lack of correspondence between product prices and actual costs of production is made worse by overinvestment and foreign borrowing beyond what can be repaid out of earnings. Excessive investment has resulted in the present heavy foreign debt and high rates of inflation. The situation reached crisis proportions when the world-wide recession led to high prices for crude oil and high interest rates on capital borrowing. At the same time, irrational prices have also contributed to low levels of efficiency within the self-managed enterprises. (Prasnikar 1983: 27-37)

In this situation, given that a higher volume of social capital per employed worker draws a higher income, large companies which enjoy a bigger share of the market can afford to distribute higher incomes. Thus in the face of inflation, unequal shares of social capital sabotages the socialist principle of "distribution according to labour." And the gap between the rich individuals, enterprises, and republics and their poorer cousins continues to widen.

Unemployment

Another problem at least as severe as inflation that has plagued the Yugoslav experiment is unemployment. As early as the beginning of the 1960s, the developing recession was accompanied by a growing problem of simultaneous inflation and unemployment, the infamous "stagflation" that has depressed the world capitalist economy for over a decade. During the

industrialization drives of the 1950s and 1960s, rural labourers were drawn into urban industries. At first, rural labourers found it relatively easy to adapt to industrial jobs since Yugoslav industry was not highly developed. But with the shift to a more intensive stage of development, industry requires more highly skilled labour. With the emphasis on industrialization and relative neglect of agriculture, many Yugoslavs underemployed on their own farms and dissatisfied with their prospects in the countryside, left agriculture and moved to the cities in search of jobs. According to one survey, five million or so former rural residents have taken up residence in cities. Because of this migration, the agricultural population has been significantly reduced and with the departure of active labourers and age composition of rural districts is seriously skewed. In 1971, among agricultural labourers over one quarter were in their mid-fifties or older. (Singleton and Carter 1982: 187)

Improved conditions in rural areas in recent years have been helpful in keeping rural labourers in agricultural production, but according to one report, over one million hectares of agricultural land had been abandoned and left fallow in 1971. (Ibid.) Clearly the lure of better health care, pensions, education, and other amenities plus the higher earnings of city jobs continues to drain the countryside of its brightest and most ambitious labourers.

From the early 1960s on, Yugoslav emigration to Western Europe in search of work began and soon developed into an exodus. By 1968, the number of Yugoslav labourers working abroad reached 350,000. At the beginning of 1972, the number rose to 800,000. Some one million Yugoslav workers and their dependents were estimated to be living abroad at the end of 1972. This represented about ten percent of the total active

population and about twenty percent of those employed outside agriculture. Remitted earnings became a significant source of foreign currency in the 1960s and early 1970s somewhat mitigating balance of trade difficulties. (Sirc 1979: 199)

Among those who employed abroad, there are two types: unskilled workers and skilled workers with university degrees. The former are farmers who first moved into Yugoslav cities in search of work and then left for foreign countries to try their luck. The university graduates are people who found that no jobs were available for them in Yugoslavia. So they made the same choice as their rural cousins. Industrialization was intended to open up job opportunities both for skilled technical people and for unskilled workers. However, this expectation has not been realized. Self-managed enterprises have tended to absorb a minimum of new workers. Self-managed enterprises are responsible for their own performance and must absorb their losses. They can control the distribution of their income after taxation. Workers' councils and the currently employed workers have good reason to be interested in the profitability of the enterprise since their personal incomes are directly tied to the size of realized profits. And lowering production costs is the main option available to them for getting higher profits. Newcomers to the Yugoslav labour market have difficulty finding work because self-managing producers perceive that expanding the workforce will raise production costs unless labour productivity can be raised as well.

The problem is also related to external factors. Economic policy from the late 1950s has tended to restrict increases of the social costs of production by imposing a tax on enterprise personal income funds. The bigger the personal income fund, the greater the tax. Therefore

enterprises have tended to increase the wages of the presently employed rather than to add new labourers.

In the late 1970s, the unemployment rate suddenly increased significantly. Owing to the world economic recession, Yugoslav labourers abroad were sent home where they joined the already high numbers of unemployed. By the end of 1976, about 300,000 unemployed workers had returned. (Sirc 1979: 202) In 1985, official unemployment stood at 1.2 million or thirteen percent of the labour force. (*International Herald Tribune*, Dec. 19, 1985) Among them the overwhelming proportion are young people without work experience. Many jobs are needed for the generation of the postwar baby boom.

Another characteristics of unemployment in Yugoslavia is its regional distribution. In 1977, the unemployment rate in the most developed republic, Slovenia, stood at the very low level of 1.6 percent. Only in Slovenia has something approaching full employment been achieved. In Macedonia, the rate is as high as twenty-one percent and this figure was surpassed by the twenty-six percent rate in Kosovo. (Schrenk, et al. 1979: 248) This sharp difference in unemployment rates is made worse by cultural differences. It's very unlikely that Albanian speaking labourers in Kosovo or Macedonia could find jobs in other territories or that unemployed youth in Serbia could find jobs in neighbouring Croatia. Cultural differences prevent regional migration. Differences in living standards is another problem. Skilled unemployed people in the cities are not eager to take jobs in small towns or in the countryside even though the pay is as good as it would be in the cities and better housing is offered. Migration toward the developed regions does occur. There are as many as 80,000 Yugoslavs from other republics working in Slovenia. About

sixty percent of the immigrants are unskilled. They are looked down upon by Slovenes and only given lower status jobs which Slovenes do not want which naturally causes tensions among nominally equal socialist citizens. (Sirc 1979: 202)

Unemployment has received increasing attention in recent years. Throughout the 1980s there were many expressions of determination to ensure a high level of investment and growth in order to obtain a "maximal utilization of all available development potentials" including technical and technological capacity, natural resources, labour and capital. The Long-term Economic Stabilization Program calls for measures to increase productive employment which include:

...better utilization of plant and equipment and other resources; shift work; shorter working time for those who perform difficult work or who work under unfavorable conditions, or who work for two or more shifts, provided that they ensure a rise in labour productivity and income in their organization; making use of the broad employment opportunities offered by small-scale businesses and housing construction; stimulation of labour-intensive investment wherever this is technologically justified. (Lazovic 1983: 23)

In recent years the launching of small, private or self-employed businesses has been encouraged despite the ideological controversy over whether expanding the private sector presents a threat to the socialist system of self-management.

The problem of unemployment will not be easily solved for a number of reasons. First of all, Yugoslavia has an open economy which depends heavily on international trade. International factors such as general economic stagnation and protectionism will certainly limit potential Yugoslav growth. And more Yugoslavs will return home from abroad if the recession continues in Western Europe.

Second, the Anti-Inflation Program is central to the implementation

of the Long-Term Program of Economic Stabilization. Measures to contain inflation, tighten bank loans and cut back on investment and social services will undoubtedly delay progress in creating employment.

Third, great emphasis is still placed on economic growth achieved on the basis of improving labour productivity. Therefore in present tight market conditions, scarce funds are likely to be invested in technologies to increase labour productivity rather than expanding workforces.

Finally, a labour market in general creates competition. Under the capitalist system, the army of cheap unemployed reserve labour serves the function of filling in vacancies when needed. In Yugoslavia the situation is somewhat different. Since self-managing associated producers cannot by definition be fired, the pool of unemployed labour is the product of a monopolization of the labour market. Those who have jobs prosper by taking advantage of their privileged access to social property. Unequal rights of associated labour have their source in the unequal access to social property which, it should be remembered, is supposed to be the property of society as a whole. This situation is an intolerable anachronism in a society of associated labour claiming commitment to principles of socialist humanism.

According to the ideology of self-managing socialism, the decision-makers in the self-managed enterprise should be the direct producers themselves who made judgments in their own interests and that do not conflict with the interests of other groups of associated labour. This requires adequate communication among various interest groups of associated labour to promote mutual understanding of the overall situation and lead to mutually agreeable solutions to the problems of inequality. This is the theory. Practice, however, reveals serious divergence from

this aspiration.

Problems accumulated over the past forty years are not simply the product of poorly conceived or badly implemented economic policies. Analysis of a whole set of economic problems reveals basic systemic contradictions. It is not just a problem of the relations and proportions between the market and planning. It is the nature of the existing market and the planning that is problematic as well as their mutual effects on one another. Planned market intervention based on subjective reaction to problems restrains the market mechanism in such a way as to suppress the desired functions of the market. Market defects are compounded by particularism and regionalism inherited from the period of centralized administrative planning. The fractionalized nature of the economy creates differential access to social property. This is very problematic given the fact that social property is conceived as the material foundation for the development of self-management relations of production.

The discussion of the market and planning in this chapter has revolved around their roles as mediators or means of communication between producers. Problems of inequality, inflation, and unemployment have all been shown to be related to differential access to social property. The actual relations between direct producers and social property will be taken up in Chapter Six.

CHAPTER SIX

DISTORTIONS IN THE PRACTICE OF SELF-MANAGEMENT AND SELF-GOVERNMENT

In the previous chapter, I discussed the present crisis in Yugoslavia in economic terms and in the light of the interaction between the operations of the market and economic planning. I maintained that political control was a more important factor than economic factors in the growing deviation from the ideal of social ownership. Deformed relations of production denied the possibility of a situation in which social ownership enables all citizens to have equality "in working with social instruments of labour--equally so in the management over labour and over material conditions of labour, and in the distribution of resources for the satisfying of their personal and of the social needs." (Rakic 1986: 6)

Working people in self-governing Yugoslavia are supposed to make decisions both in the workplace as members of a working collective and in society as citizens of a federal republic, a particular republic or autonomous province, and a local commune. Decisions concerning the conditions of labour are primarily made within the workplace. Decisions concerning overall social development and the management of social affairs are made by working people as citizens either directly or through their representatives in political organs at each level. Decisions concerning the distribution of the wealth created by labour straddle both spheres of decision making. Members of a particular working collective "appropriate only part of the product for the satisfying of their personal and of the

social needs..., whereas the other part as instruments of production designed for new production remains social ownership," belonging to all citizens including the workers in the particular workplace. (Rakic 1986: 5-6) At the heart of self-management are decisions as to the proper division of the product in a context of conflict between individual, group, and social interests. The process whereby these decisions are made directly impinges upon the scope and development of workers' self-management and citizen's self-government.

This chapter will examine the system of political communication in Yugoslav self-governing socialism focussing on its relation to the present crisis. The analysis will be divided into two related parts: self-management in the workplace and self-government through political institutions outside the workplace.

Workers' Self-Management

Workers' self-management in Yugoslavia has a wider scope today than ever before. Every productive unit in Yugoslavia is treated as a basic cell of a society which has embarked on a project of constructing an institutional framework for self-government. These work collectives are not isolated cells in a sea of capitalist relations of production.

Associated labour as the basic unit in a self-governing socialist society implies theoretically that planning is increasingly becoming a form of interactive communication which is achieved through self-management agreements entered into by associated producers in ever larger networks of technological and economic cooperation and through social compacts drafted and approved by delegates sitting in self-management assemblies. Milos Nikolic calls this a "socialization of politics" which

will create the conditions for the true emancipation of man and the final withering away of the state. Nikolic states that:

With the onset of the process of self-management associated labour, the withering away of the state enters a new phase characterized by two interconnected processes, the intensification of the socialization of politics and the fundamental linkage and unique integration of economic and political spheres--which imply the derivation of the political system directly from associated labour. (Nikolic 1981: 53)

In a personal discussion with him in February 1986, Nikolic explained that the basic organization of associated labour (BOAL) functions both as an economic and a political organ. The contribution of the BOAL to the creation of social wealth is measured in the market. The BOAL makes decisions concerning what to produce, how to produce, and how to distribute incomes taking into consideration the relations between individuals and the group within the BOAL and between the BOAL as a working collective and society outside the collective.

Members of the working collective in their decision making are expected to function both as workers and as citizens, to consider the particular interests of their members as individuals and as a collective and the interests of themselves and other members of Yugoslav society. At the same time, the work collective receives signals from above as to how to reconcile conflicts of interest between these two roles. Without this communication from above, members of each BOAL need to be exceptionally well-informed about many implications of their decisions beyond their immediate view. However, communication from above may take two possible forms. One possibility is that direct, arbitrary control comes from the top and the work collective functions simply as implementers of orders from outside. This is the general situation in the commandist Soviet model of planning and management. Another possibility is

a situation in which a supposedly knowledgeable representative is responsible both to the top and to the bottom for making rational decisions or at least has considerable leverage in decision making which involves confrontation between the interests of the collective and the interests of society. To understand Yugoslav realities, however, it is necessary to examine the situation more concretely.

Resolution of Intra-Enterprise Conflicts of Interest

Workers' self-management has been viewed by most Yugoslavs as the most successful aspect of Yugoslav self-governing socialism. Workers' self-management began to develop very early in the revolution. It is widely practiced and had a major impact on social relations. A study of workers' self-management in Yugoslavia from 1952 to 1972 suggests an extremely high rate of formal participation in work organizations.

An average of 15-20 percent of industrial workers participated in some type of self-management activity in any given year since 1951. The rate of formal participation is considerably greater in social services (35-45 percent) than in agriculture (5-14 percent). (Dunn and Obradovic 1978: 11-12)

This study also reveals that the average participation in self-management institutions has increased over time even though the number of workers' councils and management boards has declined owing to a decrease in the total number of industrial enterprises as a result of integration of smaller enterprises into larger ones. This decline was more than counterbalanced by the universal establishment of basic organizations of associated labour within large enterprises since the late 1960s. The setting up of BOALs, which involve more direct decision making by the workers in some enterprises and more representation in plant or department

councils in others, is part of a major effort to redress problems of management scale. However, this attempt to increase opportunities for workers' participation in decision making needs to be examined closely to determine its actual results.

Theoretically, every associated labourer is entitled to elect or be elected to the workers' councils. But research by scholars inside and outside Yugoslavia reveals unexpected discrepancies in representation. Although the figures produced in hundreds of studies of the social composition of workers' councils and management boards do not all correspond, there is a general agreement that skilled workers and technical and managerial personnel are overrepresented while unskilled and nontechnical white-collar workers are underrepresented. The following table provided by Denitch (1976: 161) is representative.

SOCIAL COMPOSITION OF WORKERS' COUNCILS, 1970

	Composition of Workers' Councils	Total Employed Population	Representation Rate (ideal=100%)
<u>Blue-Collar Employees</u>			
Highly skilled	17.2%	6.6%	260%
Skilled	33.7%	25.2%	134%
Semi-skilled	9.0%	12.7%	71%
Unskilled	7.4%	24.5%	30%
Apprentices	0.3%	n.a.	
Total	67.6%	68.9%	
<u>White-Collar Employees</u>			
Junior College & College Educated	10.1%	9.6%	105%
Secondary Schooling	15.9%	14.3%	111%
Elementary Schooling	6.4%	7.9%	81%
Total	32.4%	31.1%	

Source: *Statistički godisnjak Jugoslavije*, 1970: 134; reproduced in Denitch 1976: 161.

Other studies argue that the situation of disproportional representation has worsed over time. (Jovanov 1978: 342-43) Jovanov also provides tables to reveal growing disproportional representation within management boards and executive positions within the workers' councils and management boards. (Ibid.: 344-46)

This unbalanced representation within self-management institutions directly contradicts the Constitution of 1974 which upholds:

...the right to self-management, on the basis of which every working man, on an equal footing with other working people, shall decide on his own labour and on the conditions and results of labour, on his own and common interests, and on the guidance of social development, and shall exercise power and manage other social affairs. (Vanek 1975: 70)

This principle is emphasized by Kardelj, a designer of the system of self-management who argues that the contradiction between individual and collective interests "can be resolved only by placing the working man in a position where he has full control over production relationships and their economic effects on the material position of the individual, and where he can decide on the principle questions, relating to these relationships on an equal footing and directly." (Kardelj 1980: 36)

In contrast with intentions, equal influence in workplace decision making is not a reality. It is difficult to describe this situation as one in which the contradictions between individual and collective interests can be democratically overcome.

This discrepancy between what was intended and what is being practiced is not intrinsic to socialist self-management. It is rather, in my view, a result of overemphasis on industrialization for its own sake. As has been illustrated in previous chapters, industrialization and related development policies have been stressed since the founding of the Yugoslav Socialist Republic. Industrialization was the central goal of

the First Five Year Plan. A fixation on productivity, high rates of investment in certain industrial sectors, and technological modernization has characterized government policy for decades. There are contradictions between these goals and self-management in Yugoslavia. Workers' self-management has not in practice been employed to achieve the general emancipation of labour, but rather as one aspect of a decentralization strategy to achieve narrowly defined goals of economic efficiency. In Zukin's critical assessment, "Industrialization, chronologically the first concept to influence Yugoslav ideology and behavior, impressed the leadership as being necessary to the creation of the new social order that they envisioned." However, the undoubted benefits of industrialization for all Yugoslavs have not been experienced to an equal extent by all groups. Those responsible government and party cadres directly involved in policy formation, whom Djilas began to describe as "new class" in the 1950s, assume overwhelming responsibility in major decision making. Within the world of work, overemphasis on economic efficiency to spur rapid industrialization produced a problematic stratification of labour into "highly-valued workers with prewar white-collar training and skills; verbally lauded but less concretely valued unskilled workers; and undervalued peasants." (Zukin 1975: 20)

Over time, the industrialization goal and strategy has reduced workers' self-management to a mere instrument for rationalizing industrial management. Emphasis on economic efficiency generates a personnel policy which favors the creation of a technocracy. The new enterprise directors "relied upon professional and expert advice and tried to assure their advisors predominance within the enterprises." (Zukin 1975: 21) Denitch also points to the technocratic tendency:

Intellectuals naturally enough relate to the professional associations and their work collectives and finally directors and managers find the collegium, that is, the body of the technical experts in the enterprises, and the league committee in their enterprise, most relevant. (Denitch 1976: 160-161)

Kardelj points out the fundamental contradiction between workers' self-management and this technocratic tendency:

...in practice the self-management and democratic rights of the working man may become more or less fictitious in certain types and phases of decision-making, while the real decisions are made by a relatively small group of people. The elements of such a monopoly of political decision-making are still--deliberately or unconsciously--with us. This monopoly has simply been transplanted from the sphere of political power to the sphere of self-management, and it is manifested in the predominant role of management in decision-making, the existence of a technocracy, a neglect of democratic forms of decision-making in the collectivity, the passivity of workers in the exercise of their right of self-management, and so forth. (Kardelj 1980a: 86)

Kardelj reminds us that it is necessary to examine the actual power structure in the workplace. In a series of studies of workers' self-management in Yugoslavia organized by Rudi Supek in 1967-68, discrepancies were revealed between the desired and the actual power structures in twenty enterprises. The following table contrasts respondents assessment of the actual power structure as opposed to an ideal power structure.

POWER STRUCTURE WITHIN TWENTY ENTERPRISES

Desired Rank Order		Perceived Rank Order	
Workers' council	1.0	Director	2.1
Technical staff	2.8	Managing Board	3.1
League of Communists	3.0	Technical Staff	3.3
Workers	3.5	Workers' Council	3.5
Trade Unions	5.3	League of Communists	3.7
Director	5.8	Workers	6.5
Managing Board	7.1	Supervisors	6.9
Supervisors	7.3	Trade Unions	7.9
Administration	9.0	Administration	8.1

Source: Denitch 1976: 164

In theory and in workers' ideal power structure, workers' councils should rank first. The technical staff, though recognized as essential, should be subordinated to the authority of the workers' council. According to these workers' perception, however, technical and managerial staff are running the show. A similar conclusion was drawn from the results of a study of a cross-section of enterprises in all Yugoslav republics conducted by the Institute for Social Sciences in Belgrade and the Institute for Sociology at the University of Ljubljana during the second half of 1968 and early 1969. (Rus 1978: 202-203) I would contend that it is the narrow focus on industrialization and economic efficiency which has produced the conditions for the predominance of managers and technocrats in the system of workers' self-management in Yugoslavia.

The market has also played a certain role in reinforcing this tendency. Workers' incomes have been tied to enterprise profits as enterprises have been made responsible for their own profits and losses in the market. As a result, a confusion between "self-management" and "management" has been produced. Horvat borrows Josip Zupanov's analysis to distinguish self-management from management:

...management means only technical coordination, while coordination of various interests, making basic policy decisions, is a task of self-management. Self-management means social integration, the formulation of common goals, which is a precondition for efficient operational work of the management. The confusion between management and self-management generated tendencies to transfer more and more of formal coordination to bodies whose task was social integration. As a consequence, satisfactory social integration was not achieved, while non-professional management meant lower efficiency. (Horvat 1975: 168)

Based on her years of field research on workers' self-management in Yugoslavia, Ellen Comisso notes that management sees self-management as equivalent to enterprise autonomy. With such autonomy, the enterprise can increase, through increases of productivity, overall earnings which depend

very much upon the enterprise's ability to sell what it produces. Therefore, "management's emphasis on enterprise autonomy, its definition of the enterprise's goal as making money, and its stress on collective entrepreneurship were the main factors influencing its approach to self-management." (Comisso 1979: 178)

According to most research into the realities of the self-management process, most decisions do pass through workers' councils. (Vejnovic 1978; Obradovic 1978; Siber, et al. 1978; and Comisso 1978) Nevertheless, managerial and technical staff are able to manipulate the situation because of their monopolization of information and the mystification of their expertise. For instance, Rus in a study conducted in 1968-69 uncovered the fact that managers, skilled workers and technical departments exercised decisive influence over the work process while the workers' councils were most influential in five areas of decision making: income distribution, allocation of housing, employment and firing of workers; employment and firing of managers, and conflict resolution. (Rus 1978: 206-208) However, even with respect to those issues over which the workers' council exercises decisive influence

...a plurality of members votes the same way as the individual whom they trust to make a decision. This is quite understandable, since every individual who is in a position to make decisions on matters with which he is totally or partially unfamiliar behaves like a weathervane, turning in the direction of the wind. In short, he goes along with the person whom he believes is best acquainted with the problems. (Zvonarevic 1978: 185)

Evidence of this kind of situation is also provided by research done for the International Labour Office. (Pasic, et al. 1982: 188-190) There are a number of problems related to workers' limited participation in the decision-making process. Usually information concerning questions to be

decided upon at a general meeting or by referendum is not circulated well enough in advance. It often happens, for instance, that the documents to be considered at a meeting of the workers' council are sent out just before the meeting or even distributed at the meeting itself, which makes it practically impossible for delegates to consult their constituents and to act in accordance with their instructions. In most cases, preliminary discussions organized on each question are not followed up. In a large number of organizations, preparations for general meetings of workers' councils are done improperly. For example, the questions to be discussed, procedures, etc. are not regulated by self-management rules. As a result, managerial and technical staff can maintain their predominant influence over decision making. It is also often the case that documents and proposals put forward by managerial and technical personnel are long and indigestible. Too often they fail to provide clear explanations or arguments for or against policy options. They fail to provide the information necessary to form a rational basis for decisions. This blockage of the information flow directly affects the prospects for healthy development of democratic relations of communication in the workplace. Workers' self-management cannot become a reality if workers are not in a position to make intelligent decisions based on knowledge of the matter under consideration.

Resolution of Extra-Enterprise Conflicts of Interest

Thus far, I have only discussed internal conflicts of interest. Socio-political organizations such as the party branch and the trade union are also participants in workplace decision making. However, when their external links are considered, their roles can be better understood.

In the resolution of conflicts between the interests of the work collective and the general interests of the social community, the commune as the lowest administrative and legislative unit, plays a crucial role. The commune is the level of government that usually supervises enterprises to ensure the proper use of social resources. The enterprise submits its annual plans and reports to the commune, and in turn the commune sends back its policy recommendations. These recommendations are indicative and have no binding force. Nevertheless the enterprise, though not legally obliged to follow the recommendations, is susceptible to influence by the commune through other ties, such as income tax policy, price policy, and bank loans. Particularly important is the commune's role in guaranteeing bank loans sought by the enterprise. This power limits enterprise autonomy in a context in which very few enterprises are able to independently accumulate their own investment funds.

Federal organs also influence the policies of enterprises. Credit policy for investment funds has already been noted as an example where state intervention can severely curtail enterprise options. Federal organs also control foreign exchange rates. The authority to reduce interest rates and to approve price increases are other examples of levers of political influence over enterprises.

In addition to government bodies, there are other organizations that exercise influence over enterprises. The Confederation of Trade Unions, which is well organized and known for its political reliability and support for party decisions, possesses, through its hierarchical structure, what the central government administration does not possess, a direct channel of communication from the centre in Belgrade down to the enterprise. Since a high degree of cohesiveness and overlap between union

party officials is fairly common, promotion of central political preferences is ensured. As an organization, the trade union exerts its influence on enterprise decisions via its authority over union members. On the other hand, in situations where intensive worker-management conflict is the result of a certain amount of managerial manipulation of the regular self-management institutions, workers quite rationally turn to the trade union to defend their interests.

All members of a working collective are eligible to belong to the union including managerial personnel. Being a mass organization encompassing almost everyone in the enterprise, the trade union plays a very important role in enterprise affairs, primarily in the election of members of the workers' council and in income distribution. The union is usually very much concerned with wage decisions, the wage structure, and the distribution of the surplus produced by the working collective. When there is a conflict over these issues, especially between workers and management, the trade union usually takes a very interesting position. It is not necessarily the case that the trade union will always take the side of management even though both have links with authorities outside the enterprise. Certainly a split between them was evident in Comisso's research at Klek, a machine tool factory in Zagreb. (Comisso 1979: 158-65)

The president of the trade union, no matter whether a blue-collar or a white-collar worker, tends to take management's side. However, the majority of blue-collar union members put pressure on him to adopt a different position. In a situation of confrontation where pressure is exerted from outside the enterprise, solidarity develops around the need for resistance. At least, this proved to be the case in Comisso's study of Klek. Since the enterprise is a producer in the market responsible for

its own profits and losses, members of the enterprise ranging from blue-collar workers to management to socio-political organizations including the trade union all coalesced on those issues which involved the protection of the autonomy of producers from being jeopardised by external intervention. In Klek's case, eventually a compromise, initiated by Klek's political activists, was achieved. (Comisso 1979: 192-198) But this particular kind of solidarity seems to occur only under circumstances of a shared perception of an external threat to enterprise autonomy.

Besides the trade unions, the economic chambers at various levels also exert political influence on enterprises in major branches of the economy. Social planning is in practice carried out through organizations of associated labour in affiliation with these chambers.

The purely political influence of the League of Communists also should not be neglected. The League prefers the indirect influence of its members as individuals within the enterprise to direct intervention by the party. However, this influence can be very significant, even when spotty and informal. The extent of economic and political influence exercised by the League, the economic chambers, trade unions, and central or local administrative channels is rather obscure often difficult to pin down. However, constant reiteration of their function of providing necessary supervision legitimizes their influence in practice.

The creation of basic organizations of associated labour according to stipulations of the Constitution of 1974 was intended to mitigate the situation in which bureaucrats and technocrats obstruct workers' self-management. This transformation was viewed as a step in a transition to a higher stage of self-management, one in which resource allocation would be based on bargaining between units whose equality would be legally

guaranteed. However, in practice, while hardly a return to central planning, it is certainly not a step closer to the competitive market. This is clear if you take into consideration the infrastructure described above.

The questions that have to be asked concern the actual strength of the market economy in Yugoslavia and the extent of real autonomy enjoyed by enterprises. Clearly, if enterprises do not have significant say over their activity, the organizations of associated labour can hardly be expected to function as independent entities bargaining on behalf of their own interests. The creation of subenterprise units of associated labour does not mean the abolition of bureaucracy. The associations require economically efficient administration in order for them to conduct their affairs. Hierarchical power relations remain in the representative substructure of the enterprise. This segregation of producers into smaller associations can have ambiguous results. On the one hand, it can function as an institution of resistance to central control and an advocate of producers' autonomy in the market. On the other hand, it can be utilized by a technocratic and managerial elite to consolidate and extend their effective control over production processes down to the lowest level of organization within the enterprise.

With this transformation, conflicts of interest within the enterprise, particularly between different sections and workshops, have been brought into the open. Comisso provides examples of such conflicts. (Comisso 1979: 200-206; 229-237) Conflicts between organizations of associated labour are not comparable to economic competition between producers in other market economies. In Zupanov's words, "group conflicts resemble 'departmentalism' in large bureaucratic organizations rather than

aggressive market competition." (Zupanov 1978: 162) Without real autonomy, the BOALs cannot act rationally in a situation of competition among economic units. They are caught in a situation in which labour is rewarded according to the size of enterprise income. Differences in productive resources available to the associations mean unequal distribution of income is likely to reflect unequal opportunity and not simply unequal performance. Interskill wage differentials that do not distinguish between more and less profitable enterprises do not reveal the true extent of wage gaps in Yugoslavia. (Wachtel 1973: 126-28) Wachtel analyzing wage data for white and blue-collar employees in mining and manufacturing came up with a maximum differential of 1:3.3. In a speech in early 1970, Rudi Supek reported that the differential in economic sectors did not exceed 1:5. (Supek 1970: 225) This doesn't sound too bad until we learn that "the differences between the highest earnings in the leading branch and the lowest earnings in a branch at the bottom of the distribution table is of the order of 1:15!" (Vuskovic 1976: 31)

The relative liberalization of communication through the market also leads to a growing gap in wage differentials. The commodity-money relations result in a certain "profiteering mentality" and "collective egoism" as well as a greater general interest in monetary benefits, in earnings, and in raising personal standards of living. All these attitudes are coloured by political opportunism and local particularism. In the end this produces a situation in which social and economic groups with better access to social property and to the decision-making process predominate over the rest. (Supek 1970: 226)

The principle of distribution in Yugoslav socialism is that of "to each according to his or her labour" and not according to need. Thus

workers are quite concerned with maximizing compensation for their labour. Since workers' wages contain two parts, fixed (contractual) wages and variable wages which are determined by the amount of profit realized by the enterprise, workers have every reason to be interested in profit maximization. Furthermore, workers are proportionally underrepresented in the self-managing decision-making process and isolated from information channels. Their horizons are limited to their immediate situation in which they find it necessary to constantly fight to defend their interests against the bureaucracy. Sometimes in defending their interests, workers in one BOAL or one enterprise may be in conflict with the interests of workers in other BOALs or enterprises. The splits within the working class is one of the major concerns of Yugoslav socialists. (Jaksic 1971: 339-450)

The reorganization of enterprises into BOALs in 1974 did not involve fundamental changes in the system as a whole and failed to realize its goal of facilitating workers' self-management at the grassroots. In fact, it has reinforced certain inherent defects in the system of self-management. According to Nikolic's hypothesis, the basic organization of associated labour is both an economic and a political entity whereby its members are given greater opportunity to participate in self-management. Reality presents a somewhat different picture. It is true that BOALs in practice have dual functions, both economic and political. But the dominant positions of bureaucrats and technocrats prohibits workers from exercising their rights. In reality, the ideal situation in which workers consciously make decisions according to their own perceived interests while at the same time taking into consideration other interests has not been realized.

What is happening in Yugoslavia today is by no means a duplication of the Soviet model. But has it been completely eradicated after the reforms? Direct control from the top is a relic of the past. But indirect control from above exercised through banks and socio-political organizations still flourishes. In Yugoslavia, enterprise bureaucrats are not direct government representatives in the sense that their election by the workers' council is required (although this process can be distorted by informal manoeuvring behind the scenes). Nevertheless, enterprise bureaucrats are linked with higher levels. They behave differently on different occasions. Under certain circumstances, they can be seen acting independently against the centre in defense of enterprise and workers' interests. But in essence, a decision-making process dominated by bureaucratic managerial and technical staff remains unfortunately an alienating process for most workers.

In theory, "as a self-determining and self-realizing activity, work represents an essential human--not just physiological or mental--need. It provides meaning to life and at this stage of philosophical anthropology establishes its ontological status." (Horvat 1984: 365) In reality, most Yugoslav workers find their work is not at all self-determining and self-actualizing. Work is still alienating as verified by the frequent strikes in Yugoslavia. (Supek 1971: 384 and Jovanov 1978: 339-373) Horvat maintains that:

...if power over my work is exercised by somebody else, then my work and its product are alienated from me. Since work is an existential activity, its alienation has profound psychological and social effects upon society and its members. Alienation of work generates an alienated society. (Horvat 1984: 365)

Self-Government

In analysing Yugoslav socialist society and tracing the sources of the current crisis, some discussion, no matter how limited, self-government is essential. Space is too limited to provide a comprehensive picture of the political system in Yugoslavia. I will limit my discussion to those aspects that bear a direct relationship to the issue of workers' self-management.

Yugoslavs tend to explain the nature of their system of self-government by contrasting it with representative democracy.

The essential feature of our delegate system is that workers, peasants, the intelligentsia and other working people and citizens, as self-managers in the integral system of self-management interest pluralism and in all domains of social life--both in self-managing associated labour and in all other forms of the democratic self-management organization of public affairs and interpersonal relations--have become the true vehicle of the political system, instead of the fiction of the abstract political citizen and the system of political parties, which is based on this fiction. (Kardelj 1980: 232)

In the Yugoslav socialist system, the socio-political structure is based on a delegate system which is intended to insure the representation of all citizens. At each level of the system, all sectors of social and productive activities are incorporated into the self-government institutional framework. Since Yugoslavia is a multinational society, self-government is institutionalized within a federal structure which is expected to provide "for the unification of the nations and nationalities of Yugoslavia as well as for their mutual relations" and at the same time promises a "voluntary community of equal nations and nationalities" and equal sovereignty in "the organization of government at the federal level, which performs the functions required under the Constitution." (Trifunovic 1980: 84) Therefore, the political system in Yugoslavia can only be understood fully as a combination of two aspects: the delegate system and

self-governing democracy on the one hand, and federalism on the other.

Self-Governing Democracy

The delegate system as a vertical system of communication and self-government at each horizontal level are mutually interactive. The more accurate the representation of individual interests at each level, the more democratic the delegate system becomes.

Individuals exist in society not only as citizens. They are first of all workers and then consumers. The individual's multidimensional interests as a worker, consumer, and citizen cannot be fully articulated by only one form of representation. In a personal interview with Markovic in Belgrade in February 1986, he pointed out that the interests of individuals as workers are more directly represented in the commune--the lowest level of the state structure and only very indirectly represented at republican or provincial level, while such representation dissipates at the federal or highest level of government. What he proposed as an alternative self-government model is to have the federal assembly consist of three chambers: a chamber of nationalities (federal units), a chamber of associated labour and a chamber of citizens' representatives.

In the present system, the representation of the individual's interests as a consumer is also incomplete. As a matter of fact, at the higher levels, there are no formal institutions for the representation of consumer interests. Therefore, the individuals' interests both as a worker and as a consumer have hope of reasonable representation only at the local level of government in the commune.

The representation of the individual's interests as a citizen is severely limited by the nature of socio-political organizations that

operate within the political system. The system of indirect representation via delegates elected by delegations prevents individuals with divergent views from expressing them. [1] Too often such individuals are stigmatized as "class enemies" if they criticize the League of Communists. The league, though its control over the socio-political organizations can indirectly determine who will be chosen as delegates. This is why Markovic advocates the formation of a Chamber of Citizen Representatives to replace the present delegate system with one in which citizens can vote in direct elections for their representatives. Delegations and delegation's delegations from one level to another cannot fully insure that public views are objectively and adequately represented and taken into consideration in decision making. When a bureaucracy controls the formation of delegations at each level, the entire process of democratic social representation is undoubtedly obstructed.

In Yugoslav socialist practice, the commune is considered the level at which working people and citizens can really exercise their political and economic rights. The commune in Yugoslavia has greater power than any equivalent body in other socialist countries. There are reasons for this. In Yugoslav history for hundreds of years the local community was the focus of people's lives since the centres of power in foreign monarchies were far away. People's Committees in local communities in liberated areas during the war were strongholds in the fight against Nazi invasion. Most importantly, the break with the Soviet Union gave Yugoslavs a chance to reevaluate the role of the state after the socialist revolution and to recognize the connection between their own notions of self-management and Marx's concept of the withering away of the state. They concluded that the state is a necessary form of power even after the socialist

revolution. In the system of social planning, the state is indispensable in representing the most essential common social interests and in safeguarding a free and voluntary negotiation of agreements between organizations of associated labour. However, even this role of the state, in the Yugoslav's understanding, should gradually wither away to the extent that the mediating function of the state will be taken over by a process of free negotiations between organizations of associated labour at all levels. For the time being, social plans are formulated at various levels on the basis of regulations drawn up by the various levels of government. These plans are based on their assessment of the situation and its possibilities and of their conception of the general social interest. They cannot be implemented without the consent (achieved by majority vote) of the assemblies of associated labour delegates at various levels from the commune to the federation. Eventually the state is to be integrated into the socialist self-governing system and in the end to become a direct vehicle for self-government. The starting point of the process of the "withering away of the state" is perceived to be at the commune level inasmuch as the commune practically the only direct contact point between government and citizens.

Kardelj expressed this notion as early as the 1950s.

The commune is for us the decisive factor and organizational form through which the socialist forces will gradually overcome the function of the state as class rule. The economic functions, which used to be the privilege of the bourgeois class or officialdom, will increasingly become socialized through the commune, as they cease to be the function of the state apparatus, and will increasingly be transferred to the direct producer, or rather, to his self-management organs, the workers' councils, the communes and the autonomous, vertically linked associations. In this manner the commune will increasingly become the political mechanism for the process of transforming society from one class system, rent by internal contradictions and developing on the basis of those contradictions, into the community of producers of

which Marx spoke, and which develops according to the common interest of the producers, or rather, in line with a conscious resolution of contradictions between the individual and collective interests. (Kardelj 1980a: 44)

Since Kardelj wrote this, the commune has been strengthened. However, the commune from the point of view of Yugoslav theory, remains "etatist" before the complete transition is made. Moreover, the centralist practices during the period of centralized administration have left their mark. A closer look at the real practice of commune self-government is revealing.

Commune Self-Government

From 1945 to 1952, the local government called the People's Committee was headed by a council elected by all the citizens in the area over the age of eighteen. The Council then elected an Executive Board from among its members, which included a president and a secretary of the People's Committee. Each member was in charge of one area of local administration in partnership with an appointed career official. The Executive Board, whose membership largely overlapped with that of the local committee of the Communist Party, was held responsible both to its own council and to higher executive bodies up to the government of the republic. The political leadership of the party strengthened by its participation in administrative leadership in the hierarchical structure of executive organs throughout the country.

In 1952 when the first period of reforms commenced, the local people's committees were renamed communes as well as reorganized in the following ways. The council was transformed into a bicameral body made up of a Commune Chamber and a Chamber of Producers. The former was elected by all the citizens in the area and the latter by all the producers in the

socialist sectors as well as the peasants who were member of agricultural cooperatives. The former Executive Board was then eliminated and in its place a number of executive committees, each one of which corresponded to an area of local administration, were formed. They were comprised of elected members of the two chamber and co-opted citizens. This reform was intended to overcome concentration of power in the Executive Board, which had been criticized for bypassing the council and monopolizing decision making. It was intended to strengthen public participation through the drafting of citizens who because of their personal knowledge and prestige could make a contribution.

The intent of the reforms was to deprive the central government of its arbitrary authority over the communes. Henceforth, the commune became the level of government which dealt with whatever transactions were necessary between the public authorities and the individual or the socio-economic organizations, ranging from military recruitment, public security, and taxation to factory inspection and provision of social welfare facilities and services. Referendums were introduced to promote democratic relations of communication in the commune. The referendum has been used to provide direct public voting on decisions the commune assembly felt needed more direct public input. Local committees set up within the commune operated as political subgroups of the commune council to hold voters' meetings for selection of candidates both for the communal and republican assemblies and to enhance communication between representatives and their constituencies. As well, an effort was made to separate the local party branch from local administration in order to protect political decision making from bureaucratic influence.

In the second period of reforms in the 1960s, the commune's

importance grew. Communes increased their size. By 1969 the number of communes stabilized at about five hundred. The commune became the only unit of local government all intermediate administrative institutions were eliminated in order to further enhance the commune's autonomy. A number of what were formerly government agencies at various levels became independent self-managing organizations. These were mostly those in the fields of planning, statistics, land surveying, geological prospecting, waterworks, meteorology, etc. The commune's jurisdiction was enhanced when it was given the role of integrating these organizations at the local level.

The commune also began participating in nominating candidates for representatives to the Federal Assembly. Most significant was the fact that the commune was no longer completely regulated by federal laws and instead gained the right to pass certain local statutes which were subject to the Constitutional Courts rather than to the central government. The representative body in the commune, the Communal Assembly as it was then renamed, was still composed of two chambers. But the former Chamber of Producers was changed into a Council of Working Organizations whose members were elected by the members of the working collectives under the jurisdiction of the commune. According to local statutes, the Executive Committees were required to open their membership not only to Assembly members and co-opted citizens, but also to delegates of local work units.

These reforms created the general framework for the present-day local government infrastructure. The Constitution of 1974 added only two major innovations. First, all work units were organized or reorganized into smaller units, i.e., the BOALs and the self-managing communities of interest created to represent the consumers and suppliers of public

services. Funding these services became the responsibility of the self-managing communities of interest themselves. Second, the communal assembly was no longer directly elected by all the citizens of the area but was to be composed of delegates from local communities and work collectives such as factories, shops, political organizations, public administration agencies, and communities of interest. These delegates were divided into three chambers: the Chamber of Associated Labour, the Chamber of Local Communities, and the Socio-Political Chamber. (Pusic 1975b: 134-38)

But problems still remained. In a situation in which the preservation of the state structure was accompanied by the persistence of centralist administrative practices and the influence of the party, even with greater legislative authority, the local functionaries, as Pusic points out, still "prevented this radical measure of local autonomy from producing significant differences among local statutes." (Pusic 1975b: 137)

As a result, the enmeshing of self-managing democracy within the state institutional framework gradually changed "delegate assemblies into institutional voting mechanisms" and shifted authority "from delegate assemblies to executive bodies, and the latter assume the initiative within the process of making suggestions for measures and new laws that are submitted to the delegate assemblies." (Ibid.)

Pusic also points out that:

The LCY remained the locus of all major political decisions. The decisions, however, were no longer transmitted through "personal union" between party and government roles but by a more roundabout process, i.e. by being embodied in central laws and regulations, and by the informal though effective influence in local matters of those who had reached members in the decisive and disciplined central party bodies. (Pusic 1975b: 142)

The central government maintained influence over local administration, even without the formal means to make decisions.

The main areas where this is felt is in the division of attention paid by communal administrative agencies to local matters on the one hand and to the local implementation of central responsibilities on the other." (Pusic 1975b: 143)

In theory, the orientation of work in local government should be toward local affairs. But in fact, "central concerns by the sheer weight of work-loads, through habit, and as a consequence of legally established routines, and of financial considerations, often take precedence over local projects that seem more pressing to local decision-making bodies." (Pusic 1975b: 143)

Meanwhile, the autonomous self-managing economic and banking organizations become independent of the assemblies. Ultimately, "within the new context of distribution of power the delegate assemblies begin to lose their role of assembly of labour and policy-making, as well as primary and direct source of consensus within the public, the role of a delegate mechanism of coordination and integration of social interests." (Vreg 1984: 26)

With the communal assembly composed of delegates from various socio-economic organizations rather than being directly elected by all the citizens of the area, and with much of the information and real power concentrated in the hands of bureaucrats and technocrats in these organizations, the direct producers' interests become far less well represented and the bureaucratic political infrastructure is able to extend its influence to the base.

As well, the creation of self-managing communities of interest may be creating social inequality. In theory, independent organizations in the social service sectors are expected to have two positive aspects. They

can reduce the strain on the government budget and bureaucratic influence in these sectors. They can create incentives for provision of better service. However, if self-managing social service organizations are required to find financial support completely on their own, they may discriminate between rich and poor users of their services. This would mean not only that less profitable organizations provide lower quality services, but that the unemployed and the poor may have to go without.

Federalism

The federal structure which since 1952 has permitted republics and autonomous provinces to exercise control over resources has also contributed to the crisis. As the autonomy of the national groups and their territorial units has increased and each has attempted more or less independent industrialization, particularist sentiments have intensified. [2] These splits have been reproduced within the League of Communists during particular regional conflicts. The fixation on national autonomy has sabotaged prospects for cooperation and obstructed efforts to close the development gaps between regions. The underdeveloped republics and provinces did begin to develop industrial bases during the period of central planning. Subsequent events indicate that development of underdeveloped areas does require proper central planning. In this regard, Zagorka Pesic-Golubovic makes an insightful observation:

Decentralization produced disintegration renewing a need for re-etatization, however in different structural forms, i.e. the multiplication of state power centres produced a twofold result, at the same time, the strengthening of the state power at the cost of the autonomy of the production units, and the diminishing of the real power of the state(s) due to the constant competition between eight centres, and to their closing up of the economic policy within the borders of the republic regions that paralyzes a rational large-scale decision-making. (Pesic-Golubovic 1986a: 19-20)

The party could play a unifying role since its influence is universal in all the republics and provinces. However, because national differences are too often reflected rather than overcome within the party, it often fails to perform the needed unifying function. The conflicts among the republics and provinces do not necessarily reflect direct conflicts between citizens in these different regions. The conflict is played out between bureaucrats who have established themselves as the officials responsible for protecting the interests of citizens of their region or particular nationality. This perspective leads quite naturally to an attitude akin to group ownership on a regional scale. A Yugoslav legal expert warns of the danger of this kind of thinking and behavior:

No one has a right to ownership over the means of production, and no one--neither a *socio-political community*, nor any organization of associated labour, nor any group of citizens, nor any individual--can under any legal ownership grounds appropriate the product of social labour. (Rakic 1986: 6)

According to the Yugoslav Constitution, direct producers are the legitimate managers of socially-owned means of production and it is they who have the right to enter into self-management agreements at the micro-economic level and social compacts at the macro-economic level. In practice "autonomy" has become a metaphor for decentralization of power from higher authorities to lower authorities. In reality bureaucrats and tecnocrats retain their control in the name of the self-government of the associated producers. One cannot help asking why such sharp discrepancies between theory and practice have occurred. Why is it that the same group of people who have put forward the theory fail to put it into practice? Is it not possible that there are problems inherent in the theory itself?

In the mid 1960s, Markovic pointed out that the problem here, at best, is one of misunderstanding or incomplete understanding of the nature

of self-management, a confusion of self-management with decentralization. (Markovic 1965: 191-192) He outlined four contradictions in the Yugoslav practice of self-management. First, self-management as a new political entity finds itself in contradiction with the state, a form taken over from the old class society and doomed to wither away with the development of socialist democracy. The state bureaucracy naturally tries to maintain its position.

Second, self-management encounters an odd situation in which autonomous initiatives in local planning are often obstructed by central bureaucratic interventions. Thus policy swings introduce disorder and instability into planning.

Third, in an underdeveloped society, self-management may prove to be handicapped by excessive emphasis on economic development which encourages an alliance between state bureaucratic and a technocratic elites.

Finally, self-management, as the vertical communication mechanism which is expected to stimulate individual, group, and local initiative, often finds itself in contradiction with the operations of the market, the horizontal communication mechanism. Markovic maintains that the full realization of human potential cannot be realized in a context of market relations.

The Yugoslav model envisages a synthesis of workers' self-management through workers' councils in the workplace with citizens' self-government through a delegate system linking self-governing assemblies at each level both of which are integrated into a federal system uniting the country's diverse ethnic and national groupings. Theoretically the system is based on social ownership of the means of production. In Yugoslav theory, socialist self-management relations of production based on social

ownership of the means of production will promote equality and fairness in social relations. And yet, economic and political equality remain elusive goals still far from realization. It is necessary to examine whether the problem lies with the theory of self-managing market socialism itself. The next chapter will reassess this theory focussing on two key concepts underlying the theory: "social ownership" and "the general interest."

CHAPTER SEVEN

A REEXAMINATION OF SOME BASIC CONCEPTS

In Marxist political economy, property ownership, as an expression of relations of production, is the foundation of a socio-political system. There are three basic forms of property ownership: private, collective, and state ownership. Private ownership is the predominant form in a capitalist system. Collective ownership is traditionally considered a transitional form found in both capitalist and socialist societies. State ownership is traditionally considered the form most capable of fostering socialist relations of production. Based on past experience, all these forms of ownership of property in different manners have been found to generate alienation and produce inequality. This alienation is related to the persistence of a state which hovers above society beyond the control of ordinary people.

The Yugoslavs rejected Stalin's state-ownership model and tried instead to create a form more suitable for socialism which they call "social ownership." Branko Horvat explains what the Yugoslavs mean by social property:

Socialism conceived as a self-governing society implies that there exists no particular class of owners of the means of production, either individual or collective. Everyone is equally an owner, which means that no one in particular is an owner...If no one is excluded, then everyone has equal access to the means of production owned by the society. As a consequence, property confers no special privileges. (Horvat 1982: 236)

On this basis, socialism is conceived as a self-governed market

social system in which freely associated producers have equal freedom to pursue their own interests and to dispose of their income derived from working with socially-owned means of production. One notion of freedom inherent in this concept of social ownership is based on the right of individuals to work, to compete for any job in accord with their own personal interests and capacities; and to participate in decision making in the workplace on equal terms with others. Another notion of freedom inherent in this concept is based on the rights of producers to use, exchange, or sell commodities, including their own products and even the means of production with which they are working with the proviso that such use, exchange, or sales serve to increase the total value of productive assets and the productive capacity and profitability of the enterprise. (Horvat 1982: 236-37)

The legal owners of the means of production, that is the entire citizenry, may not be the direct appropriators of the surplus produced by labourer working with "their" means of production. The distinction between the legal owner and the actual user of the means of production is inevitable. In order to maintain the equality implied in the notion of social ownership, the system of self-government has been designed to overcome this distinction between the owners and managers of society's productive assets. The system of self-government is meant to coordinate the owner's interest, i.e., society's interests with the user's interests, i.e., the work collective's interests. Yugoslav socialist theory recognizes a role for the state in the contemporary socialist system. As far as possible the resolution of conflicts of interest between society and workers' collectives should be achieved through self-management agreements and social compacts but the state "acts as intermediary or

arbitor only in cases when such an agreement is not finalized." (Kardelj 1981: 117) As ideal as this sounds in theory, in the real world it does not quite work in this way. In the Yugoslav reality I have analysed social ownership has not fulfilled its promise of guaranteeing equality. And neither has self-government proven to be very helpful in promoting and sustaining equality. To understand why it is necessary to examine the notion of social ownership more closely.

Social Ownership

Social Ownership and Unequal Factors of Production

From the point of view of actually existing Yugoslav socialism, the notion that social ownership ultimately guarantees equality is an idealization which ignores certain inherent problems in the theory itself.

First of all, there are inequalities which derive from geographical and historical factors. The planet on which we are living has limited resources which are not equally distributed on its surface. Those who live in the mountains have access to different resources from those who live on the plain, in a desert, or in a river valley. Moreover, people have lived in different environments for generation. They have gradually developed different cultures and adjusted to their natural environment. Additionally, with different histories, people in different areas have had different life experiences. All of these differences are relevant factors explaining the divergent patterns and levels of socio-economic development in different areas. This common sense appreciation of the source of uneven development can easily be illustrated in the case of Yugoslavia.

For example, Montenegrans, under the rubric of social ownership, are deemed to have the equal access to the socially-owned means

of production with the people of Slovenia or Croatia. However, given their immediate surroundings and the actual resources to which they have access, they experience significant differences in the level and quality of living standards compared with Slovenes or Croatians simply because they do not have access to the means to produce a total social product of equivalent value to that produced by their better endowed fellow citizens. The drive for industrialization and the tying of wages to profits has exacerbated uneven development in Yugoslavia while the concept of social ownership has been unable to mitigate the injustice of actual inequality of opportunity between regions. [1]

It must be admitted that the limitations of the concept have been recognized inasmuch as a special tax was imposed on business in the better-off regions to create a development fund for the less well-off regions. In the 1960s there was also discussion of the idea of introducing a tax on income differentials due to technological or other factors extraneous to labour productivity and entrepreneurial ability. Shortly thereafter a tax on capital which was primarily intended to reallocate resources was adopted. But this tax was reduced over the years from six to four percent in 1966 and then to 3.25 percent in 1970, and finally abolished altogether. The tax was a source of complaint and conflict and eliminated in the name of preserving the autonomy of the objecting republics. It was also criticized as contravening the goals of economic policy, namely, raising productivity, creating incentives for export, and thereby rapid industrialization.

Lebowitz points out that the source of this resistance is "inherent in the very nature of this self-management sector" and that "the implication of the absence of such a tax" is "that the existing means of

production are the property of workers only in the self-management sector rather than the property of all citizens within the society." (Lebowitz 1985: 7) This he feels indicates a tendency to turn social property into group property.

Social Ownership and Distribution According to Labour

Karl Marx, in his *Critique of the Gotha Programme*, describes the system of remuneration in socialist society as based on the notion of distribution according to labour:

...Accordingly, the individual producer receives back from society--after the deductions have been made--exactly what he gives to it. What he has given to it is his individual quantum of labour. For example, the social working day consists of the sum of the individual hours of work; the individual labour time of the individual producer is the part of the social working day contributed by him, his share in it. He receives a certificate from society that he has furnished such and such an amount of labour (after deducting his labour for the common funds), and with this certificate he draws from the social stock of means of consumption as much as the same amount of labour costs. The same amount of labour which he has given to society in one form he receives back in another. (Marx 1972: 15)

Although the accounting has not turned out to be quite as simple as Marx imagined, the principle of socialist distribution according to labour has been espoused in Yugoslavia and other socialist countries in the name of achieving equality of obligation and benefits. There are inherent problems in the principle of distribution according to labour. These have to do with how to achieve a rational and equitable measure of differences in labour contribution due to differences in levels of skill or responsibility. These problems primarily affect wage differentials within a work collective.

But as well, tying a work collective's total wage fund to the value of its total product in effect means the value of their labour is

determined not simply by the labour of the members of that collective but by the labour of those who produced the socially-owned means of production to which they have access. The situation is further complicated by the impact of market accessibility and the scarcity and therefore prices of the various factors of production over which the work collective has no control. These differences are reflected in different product values that have nothing to do with the labour input of the particular work collective.

In essence distribution according to labour in such a context is based on de facto group ownership of the means of production despite denials to the contrary.

To deal with these problems, through debate and discussion in Yugoslavia a conceptual distinction between legal ownership and economic ownership has been developed. (Horvat 1976: 168) The Yugoslav economist Aleksander Bajt first drew attention to the existence of the separation between the legal owner and the economic appropriator of social property in the 1960s. He pointed out that for Marx relations of distribution reflect property relations. Therefore in analysing the nature of social ownership it is not enough to point out that the legal owner is the whole people. One must examine who actually derives benefits from the use of this "social property," in Bajt's terminology, who is the economic owner of this property. Horvat explains the basic idea behind this notion:

In this sense, social ownership implies the nonexistence of exploitation, which in turn implies the distribution of income according to work performed. If a person or a group of persons are earning nonlabor income, they are exploiting others, and, insofar as this happens, social property is transformed into private property. Thus self-management per se is not a sufficient condition for the existence of social property. (Horvat 1976: 170)

For Bajt this "private property" in the context of legal social ownership may take the form of ownership by a state bureaucracy, a class, or a collective. "Collective private ownership (in the economic sense)" for Bajt "arises when the product of land and capital is appropriated by individual collectives." (Bajt 1974: 160)

For Bajt the character of social property is directly related to the degree to which differences in the factors of production including availability of raw materials, capital, quality of the productive technology employed, location relative to markets are reflected in unequal pay for equal work between different work collectives. These differences undermine the basic assumptions behind the socialist principle of distribution according to labour and increase the degree of privatization of social property. Two decades after his first discussion of the distinction between legal and economic ownership, Bajt is still pointing out the problem of degeneration of social property into private property in the self-management sector.

The property of all and everyone is limited to employed workers; it is further degenerated by the fact that the intensity of capital (and equipment with other factors) and, consequently, the income of enterprise and personal incomes of workers are different in different enterprises. Therefore, the monopolization of the means of production by the workers of various collectives, which is the usual form of group ownership in Yugoslavia, constitutes a further degeneration of its socio-political structure. (Bajt 1986: 50)

Lebowitz argues that the tendency to transform social ownership into group ownership is directly linked to the principle of distribution according to contribution.

That is, so long as the relation of producers is one in which they expect and demand a *quid quo pro*(sic) in return for their productive activity--so long as they view their labour-power as their *own* (i.e., as their property) and merely as a means to secure their requirements, the tendencies toward group property are necessarily reproduced...*the tendency*

toward the treatment of means of production as group property is inherent in the conception of labour-power as property, in the self-orientation of producers. (Lebowitz 1985: 9)

While self-management through workers' councils cannot in and of itself prevent the degeneration of social ownership into group ownership, self-government could theoretically at least provide an institutional framework and experiences of solidarity that could help to counteract these tendencies to privatization of social property. Ultimately, it is a problem of information and persuasion, i.e., effective communication. People in their various work collectives and socio-political communities must be informed of the consequences of their decisions and alternatives available to avoid a situation in which the gains of some are at the expense of life opportunities for others.

The Market and Social Ownership

The market, one of the communication mechanisms that form the subject of the present thesis, also plays a role here. Social ownership is understood to assure a world in which individual freedom and autonomy in economic activity are realized in a free exchange of products and labour. Free exchange based on agreements or contracts between mutually interested parties based on agreements or contracts can be realized in the market place. Social ownership requires the market as a medium of communication to make this freedom and autonomy viable. However, the market can function properly in the context of social ownership only on condition that freedom and autonomy of producers is a reality. This is to say that every unit that carries out economic activities is a self-contained entity. All members of the unit live on whatever they can gain from the sale of their product on the market. In this context, producers will

naturally be motivated to strive for the maximum efficiency. But they will also be oriented to maximizing enterprise and thereby personal income. Being a self-regulated economic mechanism, the market in certain cases may operate in contradiction with the premise of freedom and autonomy when every activity is driven by the profit motive. Monopolization and the elimination of competition are inherent tendencies in a market economy which serve to undermine the freedom and autonomy of economic actors. The growth of monopolies in a context of social ownership usually indicates a privatization of social ownership.

The "General Interest"

For the time being at least it seems that it is impossible to achieve social ownership in a context of freedom and autonomy without the market. However, absolute freedom and autonomy of producers in the market would be in contradiction with the basic assumption of social ownership that social property belongs not just to those who manage and use it, but to all Yugoslavs. Despite the birth of the concept of social ownership in a struggle with Stalin and the subsequent critique of statism, the notion of social ownership provides the necessary justification for state intervention in the name of the owners (society as a whole) to insist that work collectives and self-governing assemblies respect the needs of other citizens and not abuse their self-management autonomy and freedom to derive benefits for themselves at the expense of fellow citizens who do not happen to belong to their particular work or ethnic or socio-political group. The trick is to achieve a balance whereby the state limits the autonomy and freedom of self-managing collectives and communities insofar as is required to protect the autonomy, freedom, and well-being of all

citizens. The Yugoslavs remain hostile to Soviet centralist etatism. They remain committed to regulation of the economy by the market to achieve maximum efficiency in the allocation of productive resources including labour. However, they are not opposed to interfering with the free play of market forces through price controls, credit policies, etc. Yugoslavs remain committed in theory to transforming the nature of the state as an organ above and alienated from civil society. This transformation is to be achieved through institutional innovations to create and perfect the structures of self-government at commune, republic and federal levels. The problem is to achieve some equilibrium between popular control of the state and control by the state. Since state control has proven to be indispensable in spite of, and even because of regulation of the economy by the market, this tension between control of and by the state appears unavoidable. At the heart of the problem is the contradictory notion of social property. Zagorka Pesic-Golubovic, a Yugoslav philosopher who has devoted herself to the study of Yugoslav self-government for thirty years explains the problem.

In this respect one can talk about the duality of "social property", which in practice comes out in two legally unfounded forms: in the form of the state disposing of property at the macro-level, and in the form of "group appropriation" at the micro-level. This shows that the legally defined form of property has still not become the actual form of property rights/relations.

...The basic social relationship is characterized by the contradiction inherent in the institutions of social property, reflected in the fact that *there is no legally defined subject of property*, either as an individual or group, or an institution, but rather it is "society" that is the bearer of property rights. "Social property", therefore, emerges as "non-ownership", and uncontrolled disposal of "society's ownership" becomes a structural phenomenon, since society as an abstraction cannot be accountable to someone for the way in which it decides on property. On the other hand, it emerges that the state has to step onto the scene as the sole subject of ownership, since no other title-holder over social property has been institutionalized at the macro-level. This, again, gives rise to the

basic contradiction manifested in the "duality of the subject of appropriation". In other words, although "social ownership" is defined as the basic social relationship, the Yugoslav model has not established a corresponding form of property relations which would enable the transition from the statist model of ownership to forms of public ownership that imply social regulation and control (or, still better, self-control and self-regulation). (Pesic-Golubovic 1986: 41)

The "Withering Away of the State"

Before turning to a discussion of Yugoslav thinking on this notion, I want to draw attention to two related concepts relevant to this question. One's position in regard to these two concepts determines one's attitude toward the question of the "withering away of the state." The two concepts are "abundance" and "the general interest."

Almost all existing socialist societies, including Yugoslavia, began as backward agricultural societies which had not had much experience with either modern industrial production or modern democratic institutions. These societies were more or less on the threshold of the industrial revolution and the bourgeois revolution. However, Marx viewed both these experiences as prerequisites for socialism. Socialism, in Marx's view, would emerge out of mature capitalism. A brief period of transition from capitalism to socialism would be sufficient in a society in which humanity had already achieved a high degree of material and cultural wealth. For all the existing socialist societies, the lack of these prerequisites has meant that the transition has been necessarily prolonged and difficult. Leaders of actually existing socialist societies have been compelled to carry out the functions of the bourgeoisie even after that class has been stripped of its economic and political power.

On the one hand, a program of rapid economic development is pursued in the name of meeting basic needs. However, to the extent to which

industrialization or modernization is emphasized, the real goals of socialism may become obscured. (Markovic 1982: 3-6) As a matter of fact, a program of rapid economic development requires sacrifice and necessarily creates conflicts of interest among those who labour in different sectors, regions, etc. Two choices are possible. The first assumes labourers should deny themselves and their immediate interests, including their right of self-management, in the name of the general, future-oriented needs of society until the day of modernization arrives and they can finally enjoy their rights fully and pursue their individual interests. The second choice assumes that the labourers should themselves govern society and democratically resolve conflicts of interest through their own initiative in the process of development. [2]

The strategy of arduous socialism implied by the first choice forgets that the essential goal of the socialist revolution is self-emancipation (or the fulfillment of emancipatory needs in Bahro's terminology). The putting off of this self-emancipatory project means that the process of need fulfilment may become a process of human enslavement to compensatory needs. As Bahro puts it, "given the continued dominance of the old economy with its permanent 'revolution of rising expectations', driven forward by the latest needs for luxury of the time, society must always be too poor for communism." (Bahro 1981: 265)

On this same issue, Brus states that:

If socialism is to be economically viable, it has to prove it under conditions of scarcity--that is to say, in a situation of conflict over resource allocation among competing ends, and hence of conflicting interests of individuals, groups and society as a whole...Socialism does not abolish and will never be able to abolish the *economic problem* of society; what it offers is a different way of dealing with the problem: conscious intervention by communal institutions, a 'visible hand' acting on behalf of the community as a whole." (Brus 1985: 48)

Obviously, what he is calling for is a better method of allocating resources which is neither entirely the "invisible hand" of the market nor a state bureaucracy which keeps from the public the information necessary for making decisions. What is required is a self-governing community in which decision-making is made by the public.

On the other hand, a monotonous reiteration of the assumption of the lack of cultural preparedness of the public for self-government seems to come from two directions. A consensus exists around the notion that a self-governing socialist system requires a highly developed cultural environment in which knowledgeable, well-informed decision-makers act rationally both on their own behalf and on the behalf of society as a whole. People must be able to see all sides of the issues in the process of attempting to resolve conflicts of interest. However, those who hold this position diverge over the nature of the process by which this desirable situation can be realized. On one side are those who lay heavy stress on the technical aspect of modern management and maintain that persistent efforts devoted to long-term education are essential. But before this general cultural level is achieved, "baby-sitting" by the state and technocrats is indispensable. This view is very widespread in all the existing socialist societies. [3]

Opinions on the opposite side reveal a humanist trust in people and a realistic optimism, arguing that the road starts right under our feet. People are quite capable of making rational decisions over conflicts of interest if they have been given the relevant information and if they are allowed to articulate their interests in an institutional setting in which legitimation of interests comes out of direct confrontation and free negotiation and not as a result of arbitrary decisions made by others

beforehand. This option has never really been tried. Instead, paternalist sentiment runs rampant in all the existing socialist societies. Nevertheless, the infant of self-government must grow eventually and the paternalistic state wither away. This, it appears, will be a long historical process whose starting point is the creation of legal institutions of self-government. Our present concern is with the legacy of a well-established paternalist ideology which impedes this process.

"The General Interest"

To understand this ideology, it is necessary to analyse the concept of the state as being a representative of society's general interests. From the earliest days of mankind, people have had to struggle for survival in a situation of scarcity of resources. As mankind's horizons and productive capacity has been expanded, so too have our needs. While a significant proportion of the world's population has overcome the condition of absolute scarcity, relative scarcity remains and reveals no prospect of disappearing in the immediate or even distant future. There will always be conflicts of interest over the allocation of scarce resources. This raises the question as to whether it will ever be possible to eliminate the state as an arbiter of these conflicts.

Mankind's first experiences with the state were with a despotic state which ruled society with absolute economic and political power in the name of a divinity. Under this despotism, the individual's interests were entirely denied whenever they were in conflict with those of the state (or to be more precise, the ruling class). In about the sixteenth century in Europe, the bourgeoisie began demanding individual freedom in rebellion against the despotic "representative of society." Without this rebellion,

the very notion of individualism would have remained inconceivable to the majority of the population. However, the negation of the despotic state with its denial of individual freedom and rights remains incomplete. Political equality and freedom staggers slowly forward without being backed up by full economic equality and freedom. Too often individualism becomes an ironic caricature of individual self-development. People become subordinated to the state, which claims its role as an "honest broker" among interest groups on behalf of society.

Socialist revolution provides a real possibility to combine economic and political democracy in such a way that people can really actualize their own individuality in a full realization of their creative capacities. But one of the major obstacles to this realization is the persistence of the state as an alien power over and above society which is preserved in the name of protecting the interests of society.

Throughout history states have been very biased institutions. They have been institutions of armed force existing to protect those who controlled the processes of decision making through their privileged access to information and control over means of production. Nevertheless, every state claims to be acting purely for the betterment of "society."

For each new class which puts itself in the place of one ruling before it, is compelled, merely in order to carry through its aim, to represent its interest as the common interest of all the members of society, put in an ideal form; it will give its ideas the form of universality, and represent them as the only rational, universally valid ones." (Marx, *German Ideology* 1965: 41)

Thus whatever group or class wants to assert their authority as the representative of the "general interest" will impose a generalization of own particular interests on society. Therefore, the particular "general interest" will take different historical forms: despotic, capitalist,

etatist bureaucratic, etc.

In socialist society for example if the socialist state, even though defined as "an instrument of the proletarian dictatorship," in fact itself interprets "the general interest" and makes decisive policy decisions to resolve perceived contradictions between particular interests and "the general interest," the general interest then becomes a fallacy and an artifice. Only if recognition of a general interest (in the sense of the best possible arrangement for all concerned) comes out of a free articulation of different particular interests and democratic negotiation among various particular interests, can a general interest in this particular situation be genuine.

In the twentieth century, economic and technological development, especially the development of communications technology, can broaden people's horizons tremendously. Such development opens the way for greater and greater numbers of people to enlarge their life experiences. It makes possible a greater variety of lifestyles. It makes possible the development of many-sided individual interests. In such a context, the notion of "general interest" becomes even more metaphysical. If "general interest" is not the result of democratic negotiation, the simulated "general interest" will become an even more alien power over civil society, over individual's real interests.

But it can be argued that the material and cultural richness of our contemporary world makes possible a fundamental transformation of people's lives and in turn quickens the movement towards a radical transformation of the political structure of society. The Yugoslav philosopher Eugen Pusic has recently developed a thesis that attempts to systematize these notions. He maintains that "The human situation in the world is

characterized by two basic processes, the increase in density and the reaction to uncertainty." [4] Pusic's notion of "density" has two dimensions. The "natural" dimension refers to the number of people in relation to the available resources. The "social" dimension refers to increases in work specialization, economic goods, information units and therefore interests.

"Reaction to uncertainty," which is a consequence of increasing density, can take two forms: "normative non-learning" or "cognitive learning." Regulation is "the essence of the normative mode of reacting to uncertainty." Pusic asserts that with the development of society cognitive learning plays an increasingly important role.

As the accent shifts toward the cognitive mode, methods of regulation undergo a fundamental change: from the categorical imperative of the norm to the hypothetical imperative of the technical prescription.

...there develop methods of regulation that are independent of sanctions, imposed from outside by force. It is becoming possible to regulate behavior by situational constraints--e.g. the regulation of traffic by traffic lights--by the withholding of otherwise available benefits and services--e.g. insurance requirements--or by the setting of conditions influencing the outcome of individual decisions--e.g. the manipulation of interest rates on loans. All neutralization of uncertainty by the State creates at the same time new uncertainty flowing from the constant increase of the potentially highly destructive and possibly arbitrary power of the State.

Nevertheless Pusic argues the general trend in modern society is away from State regulation. He maintains that:

Under the influence of these factors the behavior of individuals and organizations comes to be more and more regulated by agencies operating independently of the State's monopoly of violence, by-passing the State and coalescing increasingly into transnational networks.

Pusic finally concludes with the proposition that:

Beyond all forms of regulation, it seems that the human capacity to face uncertainty, to experience it as stimulating challenge rather than as crippling apprehension, is increasing with objective security--general welfare and insurance provision,

against economic uncertainty, human rights and institutional protection against the arbitrariness of power and political uncertainty. The consequence is that regulation is abandoned altogether in certain fields, or rather that societies rely on processes of self-organization and self-limitation.

It is significant that Pusic developed these ideas on the basis of his studies of Yugoslav society. In a summary of research done on local government Pusic concludes that:

"the behaviour of people seems to become less and less oriented towards territorial linkages in the commune as the environment changes from rural to urban...In the city there are so many opportunities for the expression of interest, from working organizations and professional associations to the media and the communications networks, that the role of the territory as the basis for a sense of community seems to decline. Also, the phenomenon of interest-disperson tends to associate people with increasing numbers of overlapping interest groups as their interests multiply and differentiate. This leads them to look for a more diversified network to channel their interests than local government. Citizens come to look upon local government as one among many complex service institutions. (Pusic 1975b: 144)

On another occasion, Pusic pointed out that:

The practice of social self-management in Yugoslavia rests on a comprehension that the resolution of conflicts of interest cannot be concentrated at a special elevated political level, with everything else declared as executed....Resolution of eventual divergence of interests, therefore, cannot be limited to special parliamentary institutions. The road toward the termination of man's political alienation leads through self-management and co-decision-making principally in the domain of the most narrow and immediate interests of every individual. (Pusic 1978: 103)

From this perspective development does not consist simply in more industries or a higher technological level. It perceives the Marxian notion of a realm of freedom for individuality in a context of human interdependence as an urgent task of the present period. It sees a need and a possibility not for the total elimination of the state, but for a major reduction of the scope of its power and authority. The notion that the state (meaning state bureaucrats) are still needed to represent the "general interest" is becoming obsolete, repugnant and alien. It is

time for paternalistic thinking and behavior to be gradually replaced by genuine democratic self-government. Furthermore, many issues and conflicts can and should be resolved outside the context of government institutions altogether.

In this respect, there is an ambivalence in Yugoslav theory which is reflected in practice. There is a certain recognition of the contradiction between the paternalism of the socialist state and the democracy of socialist self-government. Kardelj expressed strong dissatisfaction with the state of affairs at the Third Conference of the Central Committee of the League of Yugoslav Communists in 1966:

We seemed to be hesitant about some fundamental issues for quite a long time. As a matter of fact, we had to face very often the following dilemma: Should the communists struggle for some *paternalism of the state*, i.e. for a reliable government which would humanely take care of the good but *stupid* people, or for the establishment of such socio-economic conditions (and material ones) and such democratic forms within which the working man will be able to take care of himself. [5]

Kardelj expressed disappointment with the fact that this dilemma was only being dealt with on paper and that problem persisted in practice. It is true that these problems are discussed on paper and even in legislation. As one legal expert put it after discussing the system of representative assemblies:

Understandably, this does not do away with every possibility of the organs of the socio-political communities, to avail themselves of their position of organs of power to encroach upon the domain of self-managing decision-making of the workers as determined by the nature of social ownership as the basis for the emancipation of labour, and especially to usurp management over still unengaged social capital, which, being free, circulates along various channels, most often as the credit potential of the banks. Owing to this in order to provide a foundation legitimately to combat such tendencies and manifestations, our Constitution has explicitly defined the domain and limits of political power, having laid down also in the Basic Principles that the socio-economic position of the workers and their self-managing rights as well as the self-managing rights of the organizations of associated labour in which they work and manage

the resources as social property are the basis, course and limit in the performance of the functions of power by the organs of the socio-political communities. (Rakic 1986: 14-15)

While the Constitution may express the intention of restricting state power, nonetheless those who actually exercise the most influence over law making and particularly over implementation of policies are located in executive organs of the state. Their positions are both powerful and privileged. Their confidence and security are buttressed by the persistence of paternalistic ideology.

On the basis of Marx's critique of anarchism, self-government practice in Yugoslavia is constantly being "protected" by the state. However the relationship between the "protector" and what self-government is being protected against is unclear.

The self-management society is not immune to the stripping of authority, interfering with worker income, technocratic usurpation and statist intervention in self-management life. For this reason, the state must increasingly become the protector of the inalienable rights of the worker and of self-management production relations; it must not be a direct regulator of these relations, which should be increasingly organized through direct agreement-making by self-management factors. This is the Yugoslav concept of the road toward the withering away of the state... (Gligorov 1981: 8)

It sounds bizarre to invite a bureaucratic political institution to protect the working people against itself and in addition to give it the right to make judgments as what should be protected and what should not. The result is legitimation of state intervention and control which serves to puff up not to wither away the power of the state.

Responding to this quandary, Kardelj yearned for a strong workers' organization to defend workers against a monopolistic state power. In a discussion of "Contradictions of Social Property in a Socialist Society" he wrote:

The individual or unorganized worker cannot have sufficient political and economic strength successfully to resist the forceful pressure of bureaucratic and technocratic monopoly which acts in the name of the authority of associated labour and the authority of the state. Only an organized working class can have that strength. And it must primarily be organized in associated labour through the mediation of a stable system of mutual economic relations, covering mutual rights, obligations, and responsibilities. Furthermore, the working class must be organized like the state, like political authority. It must also be organized as a social-political factor acting through such organizations as are (sic) the League of Communists, the trade unions, the Socialist Alliance of the Working People, and the like. (Kardelj 1981: 44)

Judging from the present situation in Yugoslavia, this may turn out to be wishful thinking. The notion of creating a strong political organization of workers is itself problematic. It can always be professionalized and eventually bureaucratized. Moreover, with a bureaucratic state already well-established, it is hard to imagine a political organization of workers not being subsumed unless it is completely detached from the state which does not appear to be what Kardelj has in mind.

In speaking of a workers' organization detached from the state, the actual situation of workers' self-management in Yugoslavia is worth reconsidering. Workers' councils, the self-management organs in the workplace are comprised of both workers' delegates and management. If management has more say in decision-making (as has been shown to be the case), workers are greatly disadvantaged. Real authority and power lies not in the self-government assemblies at the federation, republic and commune levels, but with their executive bodies. A uniquely workers' political organization is nowhere in evidence. The League of Communists of Yugoslavia and the trade unions are organizations of both workers and management. Moreover, management dominates the organs of workers' self-management while executives dominate the organs of self-government.

Finally, most studies of Yugoslav self-government have shown that efforts to separate the party from the state which began as early as the 1950s have not been outstandingly successful. As the studies utilized in this work have shown, the party is still central to most processes of decision-making. The party is not monolithic and a plurality of views may be found within the membership and even the leadership on various issues. Nevertheless, the party does continue to play a dominant role in all political decision-making processes from policy formation to implementation. Paternalist sentiment and behavior is not confined to state bureaucrats and begins within the party.

Given the present socio-economic crisis in Yugoslavia, it comes as no surprise that centralist sentiments have begun to come to the fore. The call for greater central control no doubt reflects a paternalistic desire for a more efficient method to resolve conflicts in the current pressing situation. However, the demands for state action reinforce tendencies and processes of etatization. The role of the state in the Yugoslav socialist system is declared to be to protect workers' self-management rights from being abused by bureaucrats and technocrats without taking into consideration the bureaucratic nature of the existing state and the suffocation of self-management under its "protection." The state is also supposed to protect the economy from being distorted by the market without recognition of the fact that the role of the market in giving free play to the autonomy of independent producers is being thwarted by constant state interference. It is not the market per se that has produced so many disproportions in the Yugoslav economy but rather the disabled and stunted Yugoslav market that manages to survive in a context of decentralized state manipulation. The state is expected to protect social ownership from

degeneration into group or private ownership with no apparent awareness of the possibility and reality of degeneration into de facto state ownership. Twenty years ago Kardelj declared that the battle of socialist self-management against the paternalistic state had not been won. Unfortunately this is no less true today. The contradiction between the state and self-government has by no means been resolved in Yugoslavia or any of the actually existing socialist societies. But it is to the credit of the Yugoslavs that they have placed the issue squarely on the agenda.

POSTSCRIPT

Finally, I want to make a small confession. Despite my criticisms of Yugoslav theory and practice, I believe that Yugoslavia has immense potential for perfection her forms of self-management and self-government.. I feel strongly attracted to the people of Yugoslavia. This has to do with the quality of life I found there: a combination of individual self-development with a strong sense of communal life.

After forty years of socialist development, the Yugoslav economy (despite unequal development between the North and the South) has provided the people with an impressive level of prosperity. This prosperity includes not only people's standards of living, but a colourful cultural and social life. Amateur artistic and cultural activities flourish. Formal and informal discussion of "large" political and economic issues are an important aspect of popular conversation. I found this especially inspiring because of what it indicates about the development of individuality, an individuality which involves self enrichment and is reinforced through comradely communication in public.

What particularly impressed me was the Yugoslav people's public spirit. Most people I met in Yugoslavia: teachers, technicians, workers, students, journalists, army veterans, and officials, all have a strong sense of rights in accord with their understanding of self-government. I wondered whether this public spirit was the product of political education in schools. It may well be that "The Theory of Self-Government" is one of the compulsory courses at various levels in the education system.

Education may be an important aspect, but I am inclined to give more credit to the high degree of public participation in the self-government process. The knowledge of and concern for their society displayed by the people I met was not just learned in school but in practice. Therefore I feel that the Yugoslav people, in spite of all the crises and contradictions in their socialist experiment will find their way through to a truly feasible self-governing market socialist society.

FOOTNOTES

Introduction

1. See the "Note on Horizontal and Vertical Communication" in Appendix I.
2. See the "Note on Research Methods" in Appendix II.

Chapter Two

1. This statement by Mao comes from "New Phase," a report to the Central Committee in 1938 published in a Serbo-Croatian 1949 volume entitled *Speeches and Articles*, p. 84 and cited in Horvat 1982: 37 and 531, note 65. Horvat comments that "In the strict logic of this definition, the Central Committee cannot possibly be wrong and never has been." See also Gorz 1973: 186 for a similar discussion of "democratic centralism."
2. The above discussion has been derived from the following sources: Bahro 1981; Markus 1978; Brus 1972; Nove 1983; and Feher, Heller, and Markus 1983.
3. See, for example Maslow 1968 and Leiss 1976. For further information see also Horvat 1982: 416-420.
4. Bahro does not include Yugoslavia in his analysis.
5. Further discussion of the interrelation between price, investment, and income policy planning in market socialism can be found in Brus (1972), Selucky (1979), Nove (1983), and Milenkovitch (1971).

Chapter Three

1. Yugoslavia has 510 communes ranging in population from fewer than 10,000 persons to more than 100,000. (World Bank 1979: 45) See Appendix III for a diagram of the composition of a commune assembly.
2. The Socialist Alliance of Working People is the largest socio-political organization in Yugoslavia. Its membership includes approximately 65% of the total population. It originated in the national Liberation Front during the war and the Popular Front in the early post-war period. The League of Communists, the Socialist Youth Federation, the Trade Union Confederation, etc. are all members of the Socialist Alliance of Working People. It organizes elections of delegates and delegations to the assemblies at all three levels. See Appendix IV for a diagram of the federal assembly structure.
3. See Appendix V for a diagram of a workers' council.

Chapter Four

1. This is not the only possible division into phases of development. Milos Nikolic, who focusses on self-management, divides the same period into three phases. My own division parallels that of Ivo Bicanic (1986). Singleton and Carter (1982) use yet another division.

2. "The principle criteria for placing a product under control are: (a) its importance to the standard of living or to production costs of other products; (b) scarcity on the market; and (c) the monopoly position of the producer." (Horvat 1976: 175)

3. (Jan Vanek 1972: 75) Price controls have varied considerably with swings in government policy. In 1970, 40% of industrial prices were controlled. (Horvat 1976: 58). In 1981, about 70% of all prices were administratively controlled. (Jaksic 1981: 248). In 1985, 40% of prices were subject to controls. (Lecture notes from a seminar on "Participation, Workers' Control and Self-Management" in Dubrovnik in February 1986)

4. The text of the Long-Term Programme of Economic Stabilization can be found in *Yugoslav Survey*, November 1983. This excerpt comes from page 14.

5. This document, issued in January 1986, was under public discussion while I was in Yugoslavia in early 1986. It summarized socialist development over the past forty years and discussed present day economic problems. Yugoslavs with whom I spoke had mixed feelings about its explanation of the roots of the present crisis. Unfortunately, it had not yet been translated into English.

Chapter Five

1. Ivo Bicanic's handout and my lecture notes from Dubrovnik seminar on "Participation, Workers' Control and Self-management" in January 1986.

2. See for example Nikola Stojanovic (1986: 71-86) This is also the conclusion of some Chinese authors. For example, Lin Shuiyuan et al. (1983) conclude that the Yugoslav central government is unable to coordinate the national economy because their practice is excessively market-oriented.

3. Based on notes from a lecture by Ivo Bicanic in Dubrovnik in January 1986.

4. For a more detailed discussion, see Horvat (1976: 69-71).

5. Based on notes from an interview with Vojo Franicevic on Feb. 23, 1986 in Zagreb.

6. Based on notes from seminar in Dubrovnik and conversations with Yugoslavs. This is one of the jokes among Yugoslavs in the North.

7. For further discussion of this, see Milenkovitch (1971: 178-79).

8. This discussion is derived from an interview with a Croatian economist in Zagreb. The issue was raised in Yugoslav social science studies in the seventies. Unfortunately, I was unable to obtain examples translated into English.

Chapter Six

1. For example, the Praxis "school" of philosophers and sociologists from Belgrade and Zagreb who in the mid-sixties established the Korcula Summer School and founded the journal, *Praxis*. These scholars developed a critical assessment of Yugoslav theory and practice of self-management from the perspective of a Marxist humanism. In 1975, their journal was banned. See Markovic and Cohen (1975).

2. Based on an interview with Vojo Franicevic in Zagreb on Feb. 23, 1986.

Chapter Seven

1. The world today seems to exhibit a universal impulse to achieve "modernization." The widespread unidimensional understanding of this goal as industrialization seems to make obsolete the celebration of cultural diversity in a more traditional world of a bygone era. There is a recognition that all is not heaven in this modern industrialized future as can be seen from the unhappiness, even misery evident in the most industrialized societies of the present world. There is nearly universal agreement that modernization is essential, nevertheless.

2. Concerns about the possible deleterious effects of workers' self-management on efficiency are common inside and outside of Yugoslavia. Particularly in the context of the current slow-down in the economy, in my experience these doubts are not easily dispelled. However, social studies reveal that these worries are unfounded while blurring the important distinction between authentic and superficial forms of worker self-management. That a high representation of workers in decision making and a high rate of circulation of information are conducive to high levels of efficiency in Yugoslavia is the basic conclusion of a study by Jerovsek and Mozina (1978: 283-294).

3. It is not necessary to pin this accusation on any particular socialist writer or leader with cited sources. It is the most universal characteristic of writing, public statements, policies and state-party-society relations in virtually all the existing socialist societies.

4. This and the following quotes from Pusic (unless otherwise specified) come from a handout distributed by him at a lecture on "Regulation in Society" in Dubrovnik on February 6, 1986.

5. This quotation is taken from Zvan (1971: 485). The original statement appeared in Edvard Kardelj, "Third Conference of the Central Committee of the YCL: Current Issues in the Struggle of the YCL for the Implementation of the Reform," *Komunist*, Belgrade, 1966: 298.

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APPENDIX I

A NOTE ON HORIZONTAL AND VERTICAL COMMUNICATION

This is a study of the market and the state in a socialist society. As capitalism does not form the basis for a model here, it is necessary to clarify the function of the market and the character of the state in contrast to the situation in capitalist societies to avoid unnecessary confusion. Much of the market in capitalist societies is monopolized and as such is viewed by left-wing critics as a hierarchical mechanism based on vertical authoritarian structures of communication. Typically left-wing strategies to overcome these inherent tendencies of the capitalist market call for the use of the state as a countervailing power to curb the power of corporate giants. In principle at least the state by upholding the right of all citizens to run for office and to vote in elections, appears to be an institution based on horizontal relations of communication as opposed to the explicitly undemocratic hierarchical structure of the economy.

Socialist society was first developed within an infrastructure of statism. The socialist political systems are thus vertically structured in order to organize socio-economic production. Producers are powerless economic "activists," acting simply as implementers of orders from above. In Yugoslavia, after experiencing and exposing the defects of the hierarchical authoritarian statist system, market mechanisms have been introduced in order to decentralize decision making and limit political control over the economy. The market in this case is an economic mechanism which provides for direct communication among producers. Economic transactions are to a great extent no longer directly controlled

by the state. Therefore in this situation the market serves as a horizontal communication mechanism whose effect is to help break up authoritarian control of the economy.

However, due to the nature of the market as a self-regulated mechanism, it has a tendency to create inequality which may result in hierarchical relations of domination and subordination if there is no interevention from the outside. Recognizing this inherent tendency, the Yugoslavs are also attempting to create a democratic socialist political system which is supposed to play the role of preventing or ameliorating inequalities created by the market.

In my own view, this democratic, representative system, whether in its present or future form, will always involve vertical communication. This is because direct representation of every citizen is impossible to achieve in areas of policy making which concern large issues involving the interests of society as a whole or the interests of people of different ethnic groups. In essence, socialist representative democracy can only become viable through the creation of forms of communication which provide genuine representation of different interests at all levels of the political system.

In socialist societies the central issue confronting horizontal forms of market communication is that of equality of opportunity. The central issue confronting essentially vertical forms of political communication is that of democracy.

APPENDIX II

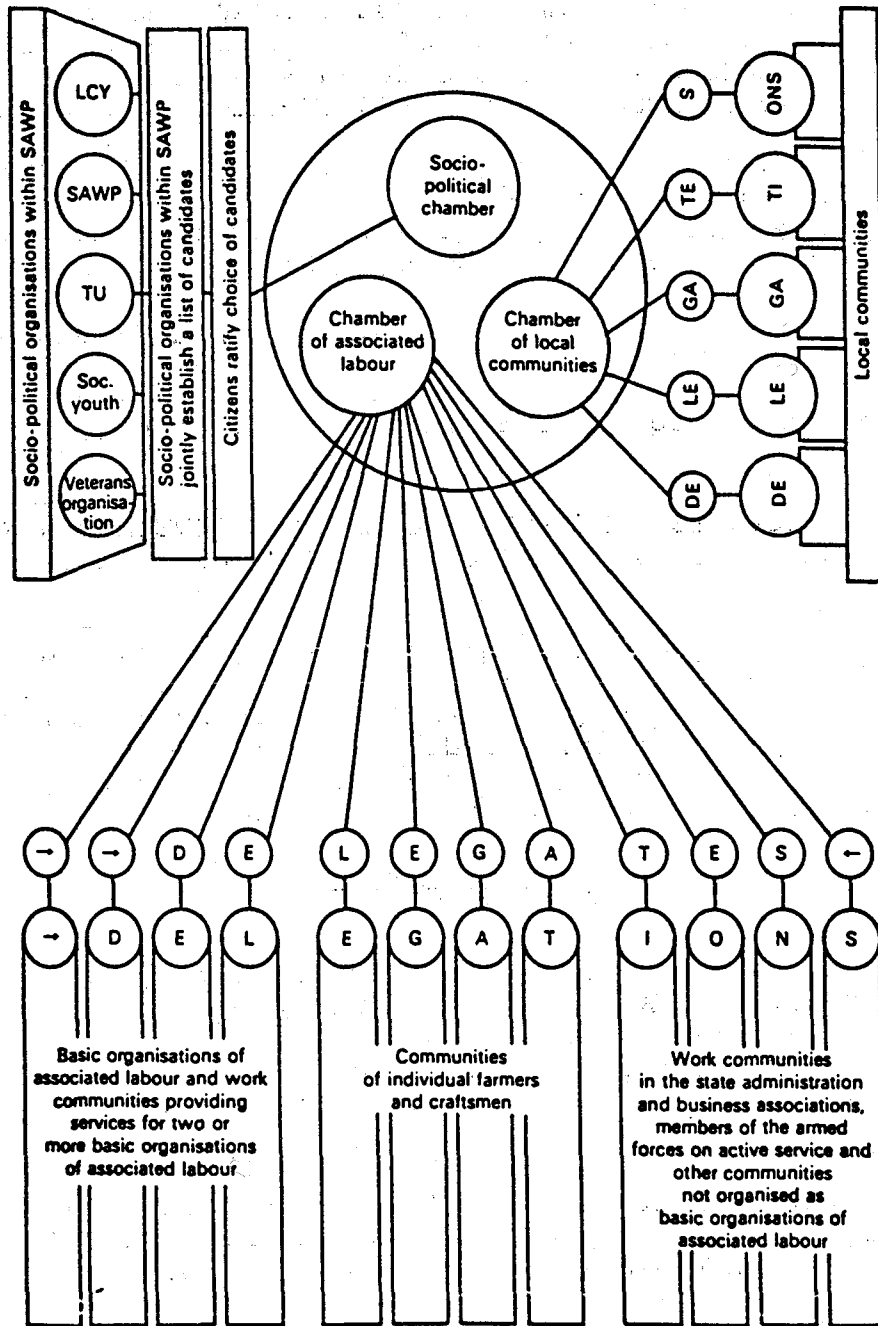
A NOTE ON METHOD

The thesis is based mainly on a survey of the relevant literature by scholars inside and outside Yugoslavia; lectures, discussions, and impressions while participating in a series of seminars on "Participation, Workers' Control, and Self-Management" held in Dubrovnik in January and February of 1986; and interviews with Yugoslav scholars during my stay in their country. Due to language problems, my field research was confined to discussions and interviews with people who could speak English. Language problems also made it impossible for me to collect or read government or enterprise documentary materials in Yugoslavia. Because controversies over policy choices in Yugoslavia often reflect ethnic differences, researchers in Yugoslavia face serious problems. For example, the seminars I attended were sponsored primarily by the University of Zagreb which is located in Croatia. Every Yugoslav with whom I spoke during the seminars was from Croatia which is known for its support for national autonomy. Their views on certain issues were no doubt affected by their national sentiments and particular experiences. I am certain that they were trying to be as objective as possible. However, because I was aware of this problem, I tried to balance the picture by asking equivalent questions of the Serbian scholars I interviewed in Belgrade. Although I was unable to travel to Bosnia, Macedonia, Montenegro, or Kosovo, I did try to compensate for this lack by reading as much as I could about the problems of the south written by both Yugoslav and non-Yugoslav commentators. Ethnic diversity and conflict is a major

issue in Yugoslavia and presents a serious challenge to any researcher attempting to understand the social, economic, or political dimensions of the "Yugoslav" system as a whole.

APPENDIX III

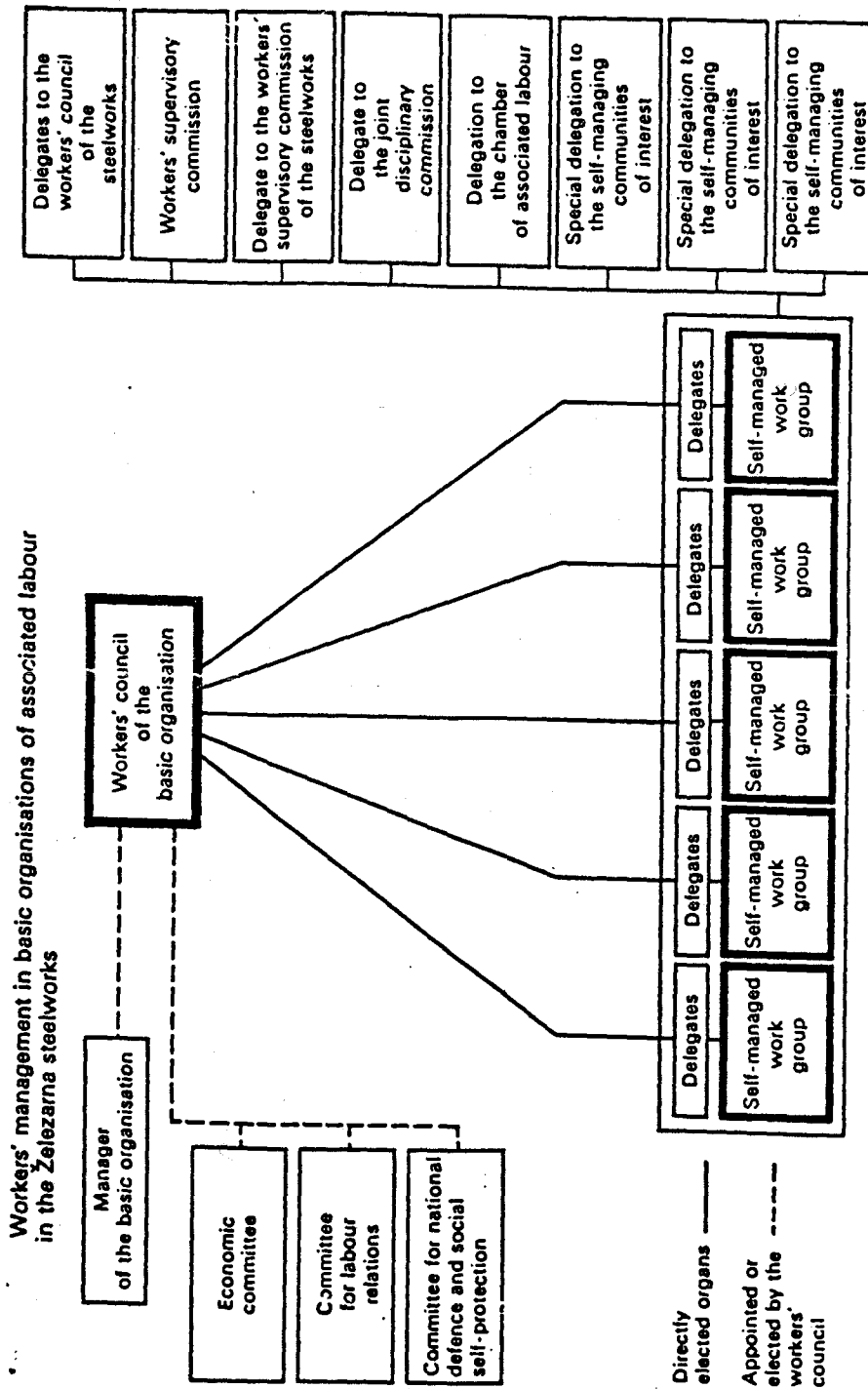
COMPOSITION OF THE ASSEMBLY OF A COMMUNE



Source: Pasic, Grozdanic, Radevic (1982: 156)

APPENDIX V

COMPOSITION OF A WORKERS' COUNCIL



Source: Pasic, Gorzdanic, Radevic (1982: 68)