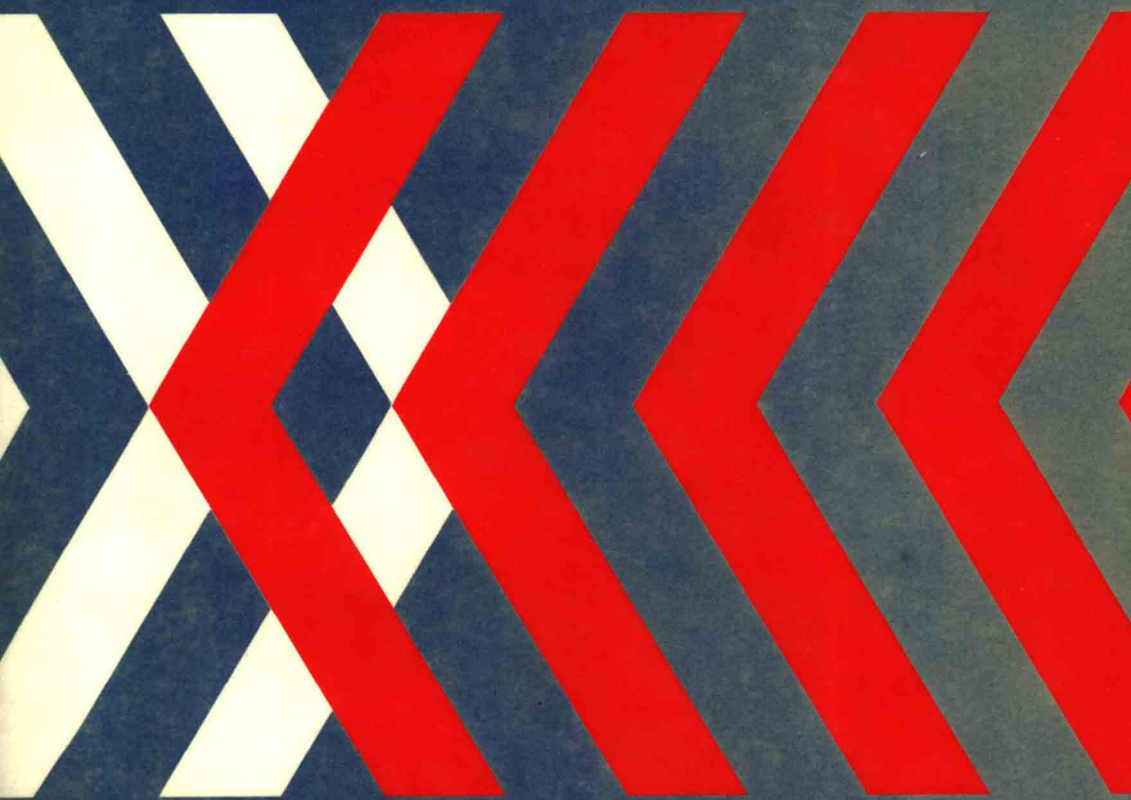


Harold Lydall

**YUGOSLAV  
SOCIALISM  
THEORY &  
PRACTICE**



# YUGOSLAV SOCIALISM

Theory and  
Practice

HAROLD LYDALL

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## PREFACE

People sometimes ask me why I decided to make a special study of Yugoslavia. The general answer is that I have always had an interest in comparative economic systems. But a more specific answer would be that in the late 1970s I, like many other people, became increasingly concerned about current economic and social trends in Britain. Was there, I asked myself, some change in property rights which would close the gulf between 'them' and 'us', and bring about a release of national energy? The Soviet system was both economically inefficient and morally and politically bankrupt. Was there, perhaps, a viable alternative in 'workers' self-management', with a market economy, as practised in Yugoslavia?

I decided that it was not good enough to rely on the English-language literature on Yugoslavia, voluminous though it is. It was necessary to learn to read Serbo-Croat and to visit the country. Financial support for two visits was generously given by the Nuffield Foundation, which also supported other research costs. But most of the benefit from these visits is owed to the Yugoslav economists whom I met in Zagreb and Belgrade, and who gave freely of their time for my instruction. They should not, however, be held responsible for any opinions which I have expressed.

Useful additional help was given by the British Embassy in Belgrade and by the Consulate-General in Zagreb. I am especially indebted to Derek Špoljarić-Woodgate, Commercial Officer in the Zagreb Consulate, who has a wide knowledge of life and work in Croatia.

Research facilities in Oxford were kindly provided by Nuffield College and by the Institute of Economics and Statistics. A heavy programme of computing was carried out at the Institute, with the able assistance of Gillian Holliday. Use was also made of the library facilities of the Bodleian and St Antony's College, while Nikola Djurišić kindly passed on to me his copies of *Borba*.

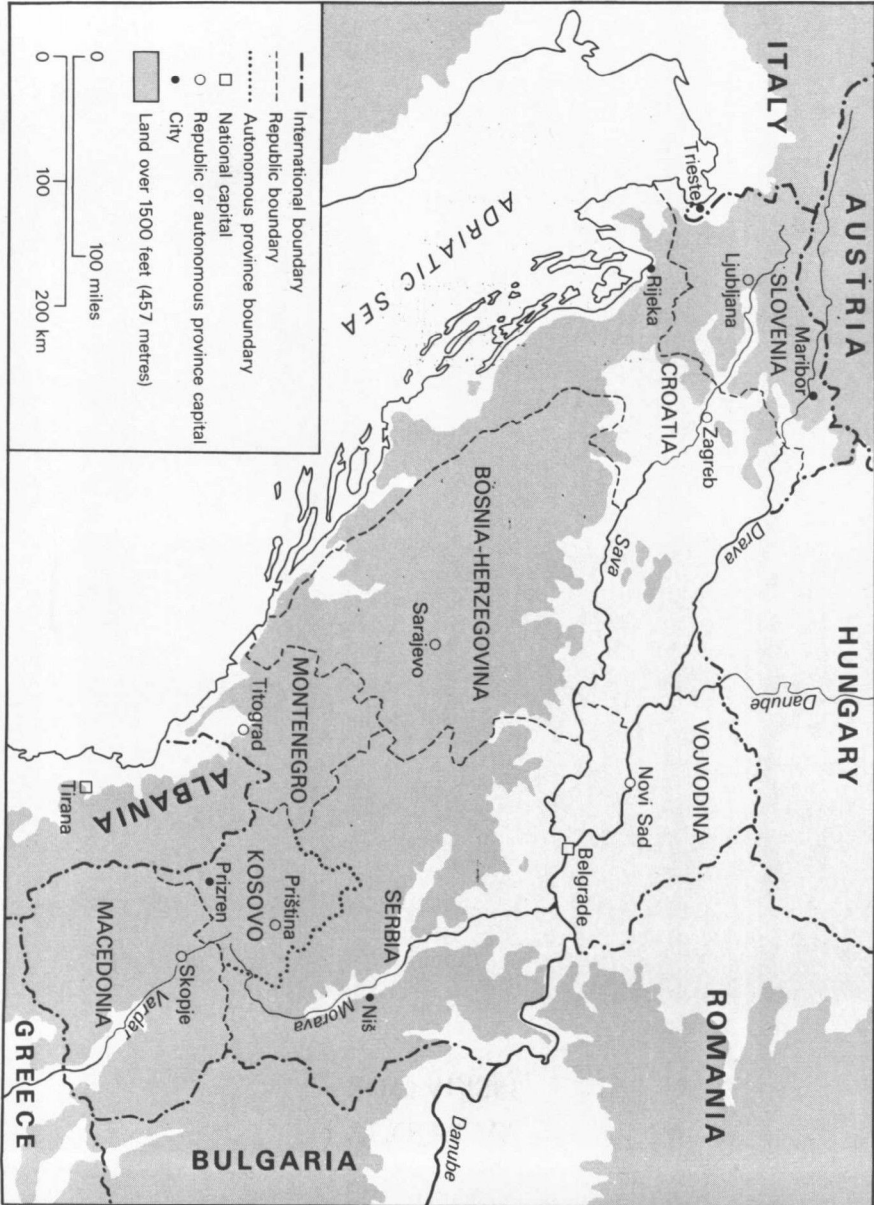
Most of the draft typescript was read by Michael Kaser, of St Antony's College, Oxford, and by Professor Alberto Chilosì of the University of Pisa. Several central chapters were also read by Dr W. Brus, of Wolfson College, Oxford. To all of these I am most grateful. While many of their suggestions for improvement were accepted, they are not, of course, responsible for the final product.

The bulk of the typing was done by Mrs C. Dyett, of Deddington. She was a marvel of speed and efficiency. Additional help was kindly given by secretaries at Nuffield College and the Institute of Economics and Statistics.

As always, I owe an enormous debt to my wife.

*Nuffield College*  
*Oxford*  
*July 1983*

H. F. L.



## NOTATION

References to books and articles by named authors are given in the form: Rusinow (1977), usually followed by the relevant page numbers, e.g. Rusinow (1977, 243). A list of these references, with details of title and publisher, is given at the end of the book.

References to tables derived from the Yugoslav Yearbooks of Statistics (official title: *Statistički godišnjak Jugoslavie*) are in the form: YB81, 102 – 13, which means 1981 Yearbook, Table 102 – 13.

References to Yugoslav newspapers, e.g. *Borba* and *Vjesnik*, as well as to the weekly journal *Ekonomska politika*, show the date of publication and, in most cases, the relevant page numbers, e.g. *Ekonomska politika*, 7 December 1981, pp. 10–11. English-language Yugoslav journals, such as *Yugoslav Survey* and *Socialist Thought and Practice*, are referenced in the standard manner.

The following symbols are used in the text tables:

..	not available
-	zero
0.0	positive but less than 0.05
( )	estimated

All dinar values are expressed in 'new' dinars (unless otherwise stated), each of which is equal to 100 'old' dinars.

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## CHAPTER 1

# INTRODUCTION

It seems that increasing numbers of people—especially of young people—are interested in alternative social and economic systems. In earlier times, those who were disillusioned with one or more aspects of capitalism mainly turned towards ‘socialism’, which was believed to be an ideal form of society. But experience of various kinds of socialist regime, and especially of communist regimes, has raised doubts about the socialist panacea. There is now a clearer appreciation of the wide range of alternative forms of socialism and of some of the practical difficulties of creating a social system which combines such qualities as liberty, equality, fraternity, democracy, efficiency, creativity, respect for human rights, and the rule of law.

In the revulsion against the inhuman and tyrannical Soviet system, increasingly imposed by military force on millions of non-Russian people, there has been a movement to revive the concept of *alienation*. For those who are anxious to keep their Marxist credentials it was a fortunate accident that this concept was found to have been an integral part of Marx’s thinking when he was a young man. The concept is, in fact, ill-defined. In Marx’s view it described a situation in which people used their labour to produce goods and services for exchange with others, a situation characteristic of capitalism. It was capitalism, also, which was held responsible for the division of labour within enterprises and the division of roles between workers and managers. All of this was considered to be destructive of the essential human personality and, by implication, could be avoided under socialism. In practice, however, Marxist socialists have tried, in Lenin’s words, to organize everyone into ‘a single office and a single factory’, the whole vast machine being directed by bureaucrats from some remote centre. What they have created may be a form of socialism, but it is also a kind of ‘super-alienation’. Not surprisingly, the works of the young Marx are not studied or quoted in communist countries.

Those who wish to reduce (or eliminate?) alienation are confronted by a series of dilemmas. If they wish above all to exclude the market, there is a choice between the centrally planned command economy on the one hand, which entails super-alienation, or the disintegration of the economy into autarkic households (or, if feasible, communes). There is no guarantee



that self-sufficient households will be free of alienation, especially for the women and the younger members, but it is certain that such households can never produce a high material or intellectual way of life. Marx, at least, would not have agreed that a mass of self-sufficient peasant households could be described as socialism. If, however, it is decided that a good society requires a high material standard of life, which implies the need for specialization and much large-scale production, a choice must be made between the super-alienation of the command economy or the maintenance of the market. If the market is considered to be the lesser evil, the struggle against alienation must take the form of an improvement of social relations within enterprises.

Reduction of intra-enterprise alienation can take a variety of forms. It may mean only that workers are better informed about management policy, i.e. that they are kept 'in the picture'. This may be accompanied by a system of collective bonuses or profit-sharing. A further step is to establish a consultative committee, at which elected workers' representatives are informed about and discuss selected aspects of management policy. This arrangement may also be upgraded to one in which the workers' representatives sit on a policy-making board, but in a minority. From the managers' point of view, each of these proposals has some potential advantages in strengthening morale and creating a co-operative attitude among the workers. But they also have certain costs. Time must be spent in giving information and, if there are also committee meetings, both managers' and workers' representatives will be taken off their normal work. But the most serious costs arise if management decisions are increasingly biased away from efficient business operations and towards the 'feather-bedding' of the existing work-force. It may be argued that these dangers arise primarily from the subordinate position of the workers and their lack of a full sense of responsibility for the success or failure of the enterprise. A radical remedy would, therefore, be to go the whole way and hand over management completely to the workers. This is one line of reasoning which leads to the proposal that enterprises should become labour co-operatives, managed by their workers.<sup>1</sup>

The most usual conception of a labour co-operative is that the members of the co-operative are those, and only those, who work in the enterprise. Normally, this implies also that all who work are also members, and that all members have equal rights in electing the management bodies and in determining enterprise policy. But some co-operatives allow non-workers to be members, and some allow workers to be non-members. There are also many possible rules in relation to capital contributions by members, and the rights which accrue to such capital. Another important distinction is between a society in which the co-operative method of production is *permitted* and one in which it is *enforced*, either universally or in particular industries.

<sup>1</sup> The proposal may, of course, be made for more elementary 'class war' reasons, as a method of expropriating the capitalists and establishing workers' rule at the level of the enterprise. This is one of the mainsprings of anarchism, which is discussed further in Chapter 2.

Labour co-operatives established during the nineteenth century or in the first half of the twentieth century were mostly either small groups of skilled workers in such industries as building, printing, or shoe-making, or agricultural co-operatives formed voluntarily—as in India and in some other less developed countries—or compulsorily—as in the communist countries. They were never particularly successful and, except under communist forced-draft conditions, they usually stagnated and eventually disappeared. But in recent years in advanced capitalist countries there has been a growth of voluntary co-operatives using modern technical methods in dynamic industries. The outstanding example is the Mondragon group of co-operatives in the Basque region of Spain, but there are signs that similar developments could occur in other countries. Meanwhile in Yugoslavia, under a Marxist-Leninist party, nationalized enterprises have gradually been transferred to the nominal control of their workers, central command planning has been abolished and enterprises have been obliged, in principle, to work for the market.

If, as seems probable, interest in and the growth of labour co-operatives are not phenomena of passing significance, it is desirable to look more closely at the likely economic (and non-economic) effects of the establishment of an economy consisting wholly or predominantly of such co-operatives. Some valuable theoretical work has been done in this area by Ward, Domar, Vanek, Meade and others. But these theories have been constructed, for the most part, on the conventional assumption of perfect competition. On normal scientific grounds it is important to confront such theories with relevant facts of observation, with a view to their possible revision or improvement. Since the only predominantly labour-co-operative economy is that of Yugoslavia, it is natural to turn to Yugoslav experience to see what can be learnt about the working of such an economy. This is the essential purpose of the present book.

There have, of course, been a considerable number of previous studies of the Yugoslav system. But many of them have been written from an official or semi-official point of view and, for obvious reasons, these tend to be somewhat apologetic and bland. Valuable insights can be gained from various monographs, especially those by Western economists who have taken a special interest in one or other aspect of the Yugoslav system. But there have not been many, or perhaps any, full-length studies of the system which attempts a sympathetic but critical analysis of the inherent tendencies of a labour-managed economy of the Yugoslav type.

There are many difficulties in using Yugoslav experience as a basis for drawing general conclusions about the working of a labour-managed economy. Every country has its own peculiar history and institutions; but Yugoslavia is more unusual than most. It originated as an artificial creation of the Versailles Peace Treaty, bringing together Serbia, Montenegro, and substantial parts of Austria-Hungary. It is a land of many nationalities, several languages and three major religions. During the inter-war period it was never completely united, and it was shattered by the Axis invasion of 1941. In the fire of resistance to the occupiers the guerrilla movement came

increasingly under the control of the Communist Party, which took complete power at the end of the war. As an apparently standard Marxist-Leninist Party, it planned to make Yugoslavia a copy of Stalinist Russia. But after three years there was a violent break with the Soviet Party and its satellites, and Yugoslavia started on an independent path. With some time-lag, the ideology was re-examined and in 1950 Tito announced the policy of 'the factories to the workers'. All nationalized enterprises—covering almost all of industry and services and part of agriculture—were gradually transferred to nominal workers' control, or 'self-management', and directed to work for the market. Self-management rights were increased in 1965 but considerably restricted again in 1971. Since 1974 Yugoslavia has been organized under a complex constitution, which theoretically gives workers complete economic and political power, but in practice ensures that power is held firmly in the hands of the Party. Nevertheless, enterprises still have a good deal of autonomy; they are supposed to work for the market; and the workers are supposed to have full responsibility for the success or failure of their enterprises. Yugoslavia is not a 'pure' example of a labour-managed economy; but it has enough of the characteristics of such an economy to make it possible to learn something about the inherent tendencies of such an economy.

In addition to the problems of isolating the effects of labour-management as such from the complex matrix of political, national, and cultural relations of Yugoslav society, the outside observer is confronted by a number of language barriers. Not only is there the normal barrier of a foreign language, but there are also the barriers of Marxist jargon and of a special Yugoslav 'self-management' jargon. Serbo-Croat can be translated into English, but the other two languages are more difficult and tortuous, and require a good deal of special explanation.

Part I of this book is concerned with two aspects of the theory of a labour-managed economy. In Chapter 2 we review three alternative concepts of socialism in order to classify the Yugoslav system according to its socialist characteristics. It will be found to be a peculiar mixture of a one-party Marxist regime (modified in practice, as will be shown in later chapters, by a considerable degree of federalization) with decentralized enterprises enjoying 'self-management'.

Chapter 3 is devoted to the economic theory of a labour-managed economy, which is assumed for this purpose to be a *laissez-faire* market economy. After a review of conventional theories based on the assumption of perfect competition, it is shown that this assumption is inappropriate for either Mondragon or Yugoslavia, or indeed for any conceivable modern industrial economy. This leads to a reformulation of the theory on a new set of assumptions which allow for imperfections in product markets, the capital market, and the transfer of technique. The resulting model yields predictions about the short-run response of co-operatives to changes in demand which are different from those of the conventional model. Long-run adjustment, as in the conventional model, depends crucially on the degree of freedom of entry, but on the new assumptions it does not

generate a zero-profit equilibrium. Because of the assumed imperfections, co-operatives with more accumulated internal finance and private knowledge of technique enjoy higher long-term rents than more inexperienced or less successful co-operatives. This leads, also, to significant differences in personal incomes between co-operatives apparently producing the same product, and hence to a number of unfortunate economic effects. These include a bias towards capital-intensity, and a general immobility of resources, which tend to be locked into the co-operatives which already employ them or, in the case of capital, accumulate them. This also creates a serious obstacle to the spread of resources and techniques to less developed regions, which is an acute problem in the case of Yugoslavia. Finally, the model throws some light on the difficulty of controlling inflation in a labour-managed economy.

Part II is designed to provide an historical and institutional background to the analysis of Yugoslav economic performance. Chapter 4 contains a brief recapitulation of Yugoslav history from 1918 to 1950, in which year the first crucial decision was taken to move towards a self-management form of socialism. The evolution of that system, however, took a long time, with many changes in the rules and institutions. These are considered in some detail in Chapter 5. With the adoption of the 1974 Constitution this evolution was largely brought to an end. With only minor changes, the rules and institutions established in that constitution have been maintained up to the present time. Chapter 6 contains a description of the new system according to official documents and commentaries.

But the real operation of the system is something different, and Chapter 7 is an attempt to bring the system to life. The questions which it tries to answer include the following: Who really controls the policies of Yugoslav 'self-managed' enterprises? What are the respective roles of the workers, the managers, and the Party? What are the levers in the hands of the Party? Is the Party genuinely willing to allow the workers to manage? Do the workers, in fact, want to take responsibility for major enterprise decisions? Are they equipped to do so? What is the role of the banks, and who controls them? Are the workers able to control the financing and operation of the social services, as they are supposed to do? Why are there so many complaints about the excessive cost of social services? Does the political system give the workers effective control over their 'delegates'? Is democracy possible in the Yugoslav system of indirect elections? What is the role of the 'socio-political organizations', especially the Party, the trade unions, and the Socialist Alliance? Do they offer effective channels for worker or citizen influence on public affairs? How much freedom of public criticism is allowed? What are the limits on civil liberties? What have been the effects of increasing federalization of government and the Party? A number of crucial questions need also to be asked about the system of 'socialist self-management planning'. How can voluntary plans be made 'from the bottom up'? What means are available for reconciling decentralized plans? Are plans enforced? How much influence does Yugoslav planning have on the real development of the economy?

In Part III we move on to an appraisal of the economic results of the Yugoslav system. Chapter 8 is concerned with macroeconomic measures of performance, such as: the rates of growth of real gross domestic product and of real gross domestic product per head; the respective rates of growth of real gross material product in the social and private sectors; the growth of social sector employment and the stock of fixed capital; the growth of factor productivity, for each factor separately and in combination; similar data for the industrial sector; changes in the distribution of the labour force; the growth and composition of unemployment; changes in personal income and consumption; changes in prices; changes in the major components of the balance of payments and trends in merchandise trade; changes in levels of regional development and some of the factors responsible for such changes; the level of inter-regional assistance; some recent indicators of comparative regional levels of economic and social development; and, finally, a comparison of levels and rates of growth of gross domestic product between Yugoslavia and some other countries.

In Chapter 9 an attempt is made to measure changes in the distribution of income during the self-management period, and to compare the distribution of income in Yugoslavia with similar data for other countries.

In Chapter 10 we turn to the discussion of a central problem of any economic system—the efficiency of allocation of resources to different uses. For the reasons already mentioned, and for others which are peculiar to the Yugoslav political system, the allocation of resources is found to be a point of considerable weakness. Capital tends to be concentrated on existing enterprises or in plants established for reasons of politics or local prestige. There is a bias towards capital-intensive industries and towards the use of capital-intensive techniques in general, and this is one of the main factors responsible for high unemployment (and emigration) and the continued lag in the development of the poorer regions. Many of the economic and political weaknesses of the Yugoslav system are revealed in a study of housing policy.

Efficient allocation of resources is only one kind of economic efficiency. The other is organizational efficiency, or 'X-efficiency', which is discussed in Chapter 11. It is often claimed that self-managed enterprises will be more productive, with given resources, than 'alienated' capitalist or state socialist enterprises. But a crucial condition for attracting and maintaining 'social' motivation is an effective level of discipline to discourage exploitation of the self-management system by 'free riders'. Unfortunately, discipline in Yugoslav enterprises is very weak, and labour productivity is low. Self-management itself, and other institutional factors, reduce the amount of time and effort devoted to productive work in the social sector, and there is a huge amount of 'moonlighting'. The important question which arises is whether these defects are the result of self-management as such, or rather of the special conditions in which self-management operates in Yugoslavia.

Chapter 12 is concerned with the problem of controlling inflation in a self-managed economy. In the absence of external causes of inflation, such

as increases in world prices or excessive aggregate domestic demand, a self-management system, which has no labour market and hence no collective labour contracts, is likely to be more stable than a modern capitalist economy, in which trade unions vie with one another to achieve large wage increases. But, once an inflationary process has started, the advantage of having no wage contracts turns into a disadvantage. There is no possibility of restricting increases in prices by holding down wage costs, either by reducing demand in the labour market or by an explicit incomes policy. In the absence of 'wage drag', devaluation tends to be reflected very rapidly in a rise of domestic prices, thus weakening the favourable effects of devaluation on the balance of payments. The only remaining remedy for inflation and a balance of payments deficit is deflation of demand, which may bring results only slowly and painfully.

In the final chapter attention is turned to the private sector, which is still large in Yugoslavia, especially in agriculture. The problems discussed are not inherent in a self-management system but arise from the special political conditions existing in Yugoslavia, which is ruled by a Marxist party fundamentally hostile to private enterprise. The bias against private enterprise has done, and is doing, great damage to the Yugoslav economy and standard of living of the people. The facts are beginning to be more widely recognized, but it is difficult, or perhaps impossible, for a communist regime to change its attitude on this question. This reinforces the conclusion, which is relevant also to the question of organizational efficiency, that compulsory self-management is not good for economic performance. But if self-management is to be voluntary, and competition is to be allowed between self-managed, private, and state enterprises, efficient self-management may be incompatible with a one-party Marxist regime. We shall have to ask ourselves whether this is not the central problem of the Yugoslav system.



PART I

Theory



