



# THE YUGOSLAV ECONOMIC SYSTEM

THE FIRST LABOR-MANAGED  
ECONOMY IN THE MAKING

BRANKO HORVAT



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# PREFACE

## TO THE SECOND ENGLISH EDITION

The first edition of this book covered the period up to the end of 1969 and was published as a supplement to the American Economic Review in 1971, under the title Yugoslav Economic Policy in the Post-War Period: Problems, Ideas, Institutional Developments. This edition was soon sold out, and frequent references in professional journals indicated that there was substantial interest in a text of this kind. Instead of reprinting this edition, however, I decided to wait a few years and then prepare a revised and enlarged version. The present edition is almost twice as long as the original one. It is brought up to date through the end of 1974. It also fills two major lacunae of the first edition by adding chapters on regional development and agriculture. The latter was given particular attention, since agriculture is generally considered the weakest link in socialist development.

The book thus covers the entire period of existence of the new Yugoslavia — that is, the thirty years between the end of the Second World War in 1945 and the beginning of 1975. These years represent one of the longest peaceful periods in the turbulent thousand-year history of the five Yugoslav nations. They are also the most productive historical period, in the sense that these Balkan peoples have been able to introduce true social innovations — perhaps for the first time — in the general course of world development. During these thirty years, Yugoslavia has been a busy social laboratory. The results — not always desirable or expected — are well worth studying.

In analyzing economic and social processes, I tried to achieve complete coverage of all relevant written sources. I hope that no important book or article is missing from the list of references. As for interpretation of facts, I relied on my own experience as an active participant in these processes, from the days of the Revolution,

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when I was active in underground youth groups and later in the Partisan Liberation War, up to more recent times, when I served as a member of the Federal Planning Board and participated in various economic committees of the federal government. In order to understand the process of development, one must become familiar with the facts, compare policy proclamations with the achieved results, study the theories and ideas which led to a certain policy, distinguish the economic and political ingredients in decision making, and analyze carefully the causes of both successes and failures. This is roughly what I tried to do in the present book. The text itself is kept as brief as possible, and every important statement is referenced with some source where a more complete argument can be found.

It is my pleasant duty to acknowledge with thanks the collaboration and help of several persons and institutions. My colleague Dr. Marta Bazler-Madžar wrote Chapter 7 on regional development. Dr. Helen Kramer translated Chapters 8-12 from Serbo-Croatian into English and provided me with valuable linguistic assistance and helpful comments. The American Economic Association kindly granted the permission to use the text of the first edition. The Institute of Economic Sciences in Belgrade provided me with necessary facilities for the completion of this study.

Branko Horvat

Belgrade, February 1975

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# THE YUGOSLAV ECONOMIC SYSTEM



# INTRODUCTION

Yugoslavia may be described as one country with two alphabets, three religions, four languages, five nations, six federal states called republics, seven neighbors, and eight national banks. The country has a population of 21 million and lies in the heart of the Balkans, with all that this connotes historically. For centuries the Balkans have been a meeting place of three world cultures, with their three powerful religions: the Catholic West, the Greek Orthodox East, and the Moslem South. In the contemporary era, these cultures are associated with three types of economic organization — capitalism in the West, central planning in the East, and underdevelopment in the South.

All these influences have been felt. A rather turbulent history was to be expected in a country with such a geographic location and such characteristics. The present generation of Yugoslavia has experienced all three known modern economic systems: capitalism before the war, centrally planned economy after the war, and self-governing socialism in more recent years. The last-mentioned system is Yugoslavia's own innovation, and so far the only one of its kind in existence. The same generation has also experienced all four modern political regimes: bourgeois democracy (in the form of a constitutional monarchy and multiparty system) before the war, fascism during the war, one-party state immediately after the war, and self-governing democracy, which is now in the process of development. It has also lived through a partisan national liberation war and a revolution. After the war, a centralized kingdom was replaced by a federal republic, and in three decades the country had four constitutions. Finally, the same generation has experienced three different economic epochs: a preindustrial stage before the war, rapid industrialization in the two decades after the war, and the recently begun stage of a modern industrial economy

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Table 1

## Selected Indicators of Development

	Prewar		Yugoslavia, 1968
	Yugo- slavia	Western Europe <sup>a</sup>	
Production per capita:			
Electric energy (kilowatt-hours)	80	500-1300	1000
Crude steel (kilograms)	17	150-300	96
Cement (kilograms)	60	100-190	190
Cotton yarn (kilograms)	1.3	5-11	5
Consumption per capita:			
Energy (kilograms of coal equivalent)	180	2100-4300	1030
Fertilizers (kilograms)	3	20-65	96
Sugar (kilograms)	5	24-47	25
Stocks per 1000 population:			
Radio sets	9	110-200	160
Automobiles	1	17-50	20

Sources: SGJ-1969; UN Statistical Yearbook, 1956.

a. France, Germany, Sweden, United Kingdom.

approaching the Western European level. Before the war, 77 percent of the population were peasants and 40 percent were illiterate. A few economic indicators will suffice to show the economic development that has taken place since then (see Table 1).

Since 1968, the further increase in the level of living has been rapid. In 1973 three-quarters of nonagricultural households had television sets and 27 percent (in Slovenia, 39 percent) owned automobiles. On the other hand, large discrepancies have not yet been overcome. Illiterates still constitute one-sixth of the adult population — one-third in the most backward region of Kosovo; but, at the same time, with 15 university and college students per 1000 population, the country has moved close to the very top on the world list for this indicator.

Such a tremendous pace of change virtually destroyed all traditions; but it also created a new one — a tradition of no tradition, a tradition of change. In line with this, the 1958 Program of the League of Communists — the heir of the Yugoslav Communist Party — ends with the words: "Nothing that has been created must be so sacred for us that it cannot be surpassed and cede its place to what is still more progressive, more free, more human."

In such circumstances, economic discussion displayed certain unusual features that make formal presentation somewhat difficult. Until about 1960, most of the discussion was not put down on paper,

or at least was not published. Further, professional articles made practically no use of references. There was the feeling that a complete break with the past had been made, and so there was nothing to which to refer. In the same period, professional literature was almost completely descriptive. This was due partly to the fact that the first university departments in economics were established only after the war. It is said that 90 percent of all the scientists who have ever lived are alive today. As far as Yugoslav economists are concerned, this percentage is virtually 100.

The second reason for the lack of analytical literature is to be found in the fact that there was hardly any time left for analysis. Economists were busy changing organization, institutions, and policies, and keeping themselves informed about all these changes. Unless one had the inclinations of an economic historian, it did not make much sense to engage in a long-term research project. Before the book came off the press, the system would already have been changed. Thus for quite some time professional economists were just describing what was happening. Description always precedes analysis.

Finally, until recently, attention was focused mainly on what Yugoslav economists call the "economic system." Economic policy in the traditional sense — the use of a set of instruments to achieve desired results in a given framework — hardly existed. Problems encountered were generally solved by changing the institutional framework itself. For a long time, and to a certain extent even today, economic policy consisted of an endless series of reorganizations. The search for an appropriate economic system was the main preoccupation of economic policy.

After 1960, economic organization began to assume a more permanent shape and economic discussion began to take a more familiar form. Since then, articles have begun to make use of references, ties with the past and with the rest of the world have been established, economic debates have become frequent and lively, professional competence has increased, and a specifically Yugoslav theory of economic policy is now beginning to emerge.

## THREE SOCIOECONOMIC REFORMS

### 1. CENTRALLY PLANNED ECONOMY

#### Institutional Development

Of all the European countries occupied by the fascist invaders, Yugoslavia was the only one to liberate itself by its own forces. The National Liberation War coincided with a genuine social revolution. This meant two things: an unbelievably high morale — the readiness to assault the heavens, as a poet said — and also an almost unimaginable degree of devastation of the country. About 1.7 million people were killed in battles, in concentration camps, by penal expeditions, and by domestic quislings. One in every nine inhabitants disappeared in this way. Almost two-fifths of the manufacturing industry was destroyed or seriously damaged. About 3.5 million out of 15 million people were left without shelter. The loss of national wealth amounted to 17 percent of the total war damage suffered by eighteen countries represented at the Paris Reparations Conference in 1945 [1, pp. 27-29]. Apart from all this, the financial system of the country was in chaos; divided and occupied by various aggressive neighbors, the country was left with seven kinds of currency (German marks, Italian lire, Hungarian pöngös, Bulgarian leva, Albanian francs, Serbian dinars, and Croation kunas).

The first task of the new government was to repair war damages as fast as possible and to organize the economy on what were considered to be socialist principles. For this purpose, all available human and material resources were centralized, and by 1947, with enormous efforts and great enthusiasm, the prewar output was again matched. The program of socialist reconstruction was carried out by means of legislative and political activities.

### Three Socioeconomic Reforms

Yugoslavia was a peasant country. Peasants participated in the National Liberation War en masse. Agrarian reform, initiated after the First World War, had never been fully implemented because of the opposition of the ruling classes. No wonder that one of the first moves of the new state was to undertake a radical agrarian reform. The land was to be given to those who tilled it. Less than three months after the end of the war, a law was passed that took away arable land in excess of 87 acres from farmers, and in excess of 12 acres from nonfarmers. Big landowners lost their land without compensation. The land that was acquired in this way was distributed among poor peasants, who received about one-half of the total land, cooperatives, and state farms [4, pp. 53-54].

The next crucial move, undertaken in 1946, was nationalization of private capital in industry, mining, transport, banking, and wholesale trade establishments. In 1948, nationalization was extended to retail trade and catering and in 1958 to residential buildings with more than three apartments. About one-half of the Yugoslav economy, outside agriculture, had been owned by foreign capital. Of the remainder, a sizable part had belonged to the Royal Government, which had owned coal and iron ore mines, forests, and the largest agricultural estates; had enjoyed a monopoly in retail trade of tobacco, salt, matches, and kerosene; and was the largest wholesale trader, transporter, importer and exporter, banker, construction entrepreneur, and real estate owner [2, p. 78]. Since a number of private businessmen collaborated with the fascist invaders and quisling governments, their property was confiscated. Those who took part in the Resistance — and Communist Party members did so as a matter of course — very often gave away their property without asking for compensation. In addition, as was noted earlier, many business establishments were destroyed or damaged. In such circumstances, complete nationalization was practically possible and relatively easy to carry out, and did not represent an excessive financial burden.

The next move was to introduce planning by law in June 1946. Plans were prepared by the Federal Planning Commission, responsible directly to the federal government.

Everything was now ready for the new Constitution, which was adopted in 1946. Article 15 read: "In order to protect the essential interests of the people, increase national welfare and make proper use of all economic potentials, the state directs economic life and development through a general economic plan, relying on the state and cooperative sector and exercising general control



over the private sector in the economy." This paragraph may be considered as both the definition and the inauguration of a specific socioeconomic system, later to be known as administrative socialism or etatism.

The year 1947 brought the First Five-Year Plan, which was to lay the foundation for the future industrialized and developed Yugoslavia. The Plan was extremely ambitious — national income was to be doubled as compared with the prewar level — but in the first eighteen months it was quite successfully carried out. It appeared that the period of violent revolutionary upheavals was over and that the country was settled on a well-defined and predictable course of economic and social development.

For Yugoslavia, however, history had always had surprises in store. This time the surprise was more than unexpected: it was a complete shock. In the first half of 1948, Stalin accused Yugoslav Party leaders of revisionism and antisovietism. Yugoslavs rejected the accusation, and soon afterward the Cominform countries launched a full-scale political and economic attack. The Yugoslav Communist Party was excommunicated from the "family of brotherly parties," various treaties were abrogated unilaterally, development loans were canceled, trade with Yugoslavia (amounting to about one-half of her total foreign trade) was reduced to virtually nothing by the middle of 1949, and a complete economic boycott was established.

The first reaction on the Yugoslav side was a somewhat naive but understandable attempt to prove that Stalin and others must have been misinformed, that no one questioned orthodoxy in organizing a socialist economy, that state ownership and central planning were keystones of the system. Motivated by considerations of this sort, in January 1949 the Central Committee of the Party decided to accelerate the collectivization of agriculture. An income tax law passed in August 1948 had already stated that "the rate of taxation should be such as to foster peasants' work cooperatives by means of lower taxes." A law on cooperatives passed in June 1949 provided a legal framework for various types of cooperatives. Individual peasants were free not to join cooperatives if they chose. But by political propaganda and various administrative and financial devices, the authorities exerted strong pressure on them to join, and they did so in great numbers.

Meanwhile, the organization of the economy was modeled after the Soviet pattern. The state budget absorbed the greater part of national income. The state apparatus was running the economy