

Yugoslavia

Self-management Socialism • Challenges of Development

**Martin Schrenk
Cyrus Ardalan
Nawal A. El Tatawy**



A World Bank Country Economic Report

Yugoslavia

Self-management Socialism and the Challenges of Development

*Report of a mission sent to Yugoslavia
by the World Bank*

Martin Schrenk, Cyrus Ardalan,
and Nawal A. El Tatawy

Coordinating Authors

Published for the World Bank
The Johns Hopkins University Press
Baltimore and London

Copyright © 1979 by
The International Bank
for Reconstruction and Development THE WORLD BANK
1818 H Street, N.W., Washington, D.C. 20433, U.S.A.
All rights reserved
Manufactured in the United States of America

The views and interpretations in this book are the authors' and should not be attributed to the World Bank, to its affiliated organizations, or to any individual acting in their behalf. The map serving as frontispiece has been prepared for the convenience of readers of this book; the denominations used and the boundaries shown do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

Library of Congress Cataloging in Publication Data

Schrenk, Martin, 1928—

Yugoslavia, self-management socialism and the
challenges of development.

(A World Bank country economic report)

Includes index.

1. Yugoslavia—Economic policy—1945—
2. Yugoslavia—Economic conditions—1945—
 - I. Ardalan, Cyrus, 1950— joint author.
 - II. El Tatawy, Nawal A., 1942— joint author.
 - III. International Bank for Reconstruction and Development.
 - IV. Title.
 - V. Series.

HC407.Y83 330.9'497'02 79-84316

ISBN 0-8018-2263-7

ISBN 0-8018-2278-5 pbk.

Foreword

THIS IS THE EIGHTEENTH IN THE CURRENT SERIES of World Bank country economic reports, all of which are listed on the following page. They are published, in response to a desire expressed by scholars and practitioners in the field of economic and social development, to facilitate research and the interchange of knowledge.

The Bank regularly prepares economic reports on borrowing countries in support of its own operations. These surveys provide a basis for discussion with governments and for decisions on Bank policy and operations. Many governments use the reports as an aid to their economic planning, as do consortia and consultative groups of governments and institutions providing assistance in development. All Bank country reports are published subject to the agreement of—and several have been published by—the governments concerned.

HOLLIS B. CHENERY
Vice President for Development Policy
The World Bank

Washington, D.C.
September 1979

WORLD BANK COUNTRY ECONOMIC REPORTS

Published for the Bank by The Johns Hopkins University Press

Yugoslavia: Self-management Socialism and the Challenges of Development

Korea: Policy Issues for Long-Term Development

The Commonwealth Caribbean: The Integration Experience

Ivory Coast: The Challenge of Success

Korea: Problems and Issues in a Rapidly Growing Economy

Kenya: Into the Second Decade

Yugoslavia: Development with Decentralization

Nigeria: Options for Long-Term Development

Economic Growth of Colombia

Published by the World Bank

Papua New Guinea: Its Economic Situation and Prospects for Development

The Philippines: Priorities and Prospects for Development

Lesotho: A Development Challenge

Turkey: Prospects and Problems of an Expanding Economy

Senegal: Tradition, Diversification, and Economic Development (also published in French)

Chad: Development Potential and Constraints (also published in French as *Le Développement du Tchad: Possibilités et Limites*)

Current Economic Position and Prospects of Peru

Current Economic Position and Prospects of Ecuador

Employment in Trinidad and Tobago

Acronyms and Initials

BOAL	Basic organization of associated labor
COAL	Contractual organization of associated labor
CKD	Completely knocked down
COMINFORM	Communist Information Bureau
EEC	European Economic Community
GDP	Gross domestic product
GMP	Gross material product
GNP	Gross national product
GNS	Gross national savings
ICOR	Incremental capital-output ratio
IMF	International Monetary Fund
ISIC	International standard industrial classification
LCY	League of Communists of Yugoslavia
LDC	Less developed country
NBY	National Bank of Yugoslavia
OECD	Organization for Economic Cooperation and Development
SITC	Standard international trade classification

Currency Equivalents

Before January 23, 1971

U.S.\$1.00 = Din12.5

Between January 23, 1971 and December 22, 1971

U.S.\$1.00 = Din15.0

Between December 22, 1971 and July 12, 1972

U.S.\$1.00 = Din17.0

Since July 12, 1972

The dinar has been floating.

On December 31, 1978

U.S.\$1.00 = Din18.6

All dollar figures in this report
are current U.S. dollars.

Preface

THIS IS THE WORLD BANK's second country economic report on Yugoslavia. The first, *Yugoslavia: Development with Decentralization*, published by The Johns Hopkins University Press in 1974, reviewed the institutional setting and economic performance under the decentralized system established after the economic reforms of 1965. Those reforms emphasized the autonomy of enterprises and embraced the competitive market as the moving force and regulator of economic development. The focus of this report is a new phase in Yugoslavia's development, a phase that gradually emerged in the 1970s in response to external economic challenges and the successes and failures of the 1965 reforms. The new phase was formally initiated by the constitutional amendments of 1971; its essence is defined in the constitution of 1974; its consolidation still is in progress.

Three sets of objectives were adopted in preparing this report. The first was to trace the institutional changes of the 1970s to underlying sociopolitical conditions and to sketch the main features of the present framework for economic management. The second was to review the economic goals of the five-year plan for 1976-80 and to assess the prospects of and the constraints on meeting those goals. The third was to analyze in some detail the six central issues of economic development that Yugoslavia has faced over the years.

The report is arranged in two parts. Part one introduces the main institutional features of Yugoslavia's system of economic management and analyzes the country's economic problems and prospects. Part two presents the more detailed analysis of fundamental issues of economic development; its principal conclusions are incorporated in part one. For readers interested only in a sweeping overview, we recommend chapters one, two, and five. For those interested only in gaining insights about the Yugoslav system, we recommend chapters one through four.

Chapters one and two sketch the social, political, and economic

trends up to 1975; they set the stage for the subsequent description and discussion of the basic elements of "the Yugoslav system" in the second half of the 1970s—the centerpiece of part one. Chapter three sets out the principal premises underlying self-management socialism and the translation of those premises into institutional arrangements and instruments for macroeconomic and microeconomic management. Chapter four presents and discusses the Yugoslav perception of the two central institutional issues of economic management: the role of the market and the role of planning, particularly the novel concept of "self-management planning." Because the transition from the old system to the new is still in progress, chapters three and four do not attempt to provide a definitive description of the present state of affairs. By necessity their focus is on the direction of the changes and on the promises and limitations of those changes for the efficient management of the economy. Consequently these chapters present, in addition to objective facts, the hypotheses derived by the authors from diverse evidence, which is in turn imbued with economic and noneconomic considerations. Chapter five summarizes the objectives of the five-year plan for 1976–80 and the mission's assessment of Yugoslavia's development prospects over that period. The six chapters constituting part two can be considered as self-contained essays on the respective issues—stabilization, resource mobilization, resource allocation, the balance of payments, employment, and regional development. A technical note at the end of chapter eight describes the input-output model that was extensively used for the analysis.

This report is based on the findings of a mission that visited Yugoslavia in November 1976. Members of this mission were Martin Schrenk, chief; Cyrus Ardalan, general economist; Charles Chittle, foreign trade consultant; Kathleen Jordan, input-output specialist; Boris Blazic-Metzner, national accounts specialist; Nawal A. El Tatawy, general economist; and Kosara Gavrilovic, interpreter and translator. Yuji Kubo of the Bank's staff worked with the mission in preparing the input-output analysis. William Dunn, a faculty member of the Graduate School of Public and International Affairs at the University of Pittsburgh, wrote the chapter on social and political development. Bruce Ross-Larson edited the manuscript for publication. Florence Robinson indexed the text, Harry Einhorn corrected proofs of the text and tables, the Graphics Unit of the World Bank's Art and Design Section prepared the charts, Larry A. Bowring prepared the map, Carol Crosby Black designed the

cover, and Brian J. Svikhart managed the design and production of the book.

We are grateful for the assistance provided to us by the Yugoslav government, particularly the Federal Secretariat for Finance and the Federal Institute for Planning. Without that assistance we would not have been able to piece together a composite interpretation of the new system of economic management. We naturally assume responsibility for any conceptual ambiguities and factual errors—ambiguities and errors that perhaps are unavoidable given the pace of institutional evolution in Yugoslavia.

MARTIN SCHRENK
CYRUS ARDALAN
NAWAL A. EL TATAWY

Contents

<i>List of Figures and Tables</i>	<i>ix</i>
<i>List of Acronyms and Initials</i>	<i>xiii</i>
<i>Currency Equivalents</i>	<i>xiv</i>
<i>Preface</i>	<i>xv</i>
<i>Overview</i>	<i>3</i>
 PART ONE. THE SELF-MANAGED ECONOMY	 9
<i>One. Social and Political Development</i>	<i>11</i>
Postwar Societal Transformation	13
Evolution of Government and Politics	15
<i>Two. Economic Management and Performance to 1975</i>	<i>22</i>
The Evolution of Self-management	23
The Performance of the Economy	31
<i>Three. The Premises and Instruments of Self-management</i>	<i>40</i>
Premises of Self-management Socialism	42
Instruments and Organizations of Self-management	49
<i>Four. Self-management Planning and the Market</i>	<i>66</i>
The Role of the Market	67
Concepts and Procedures of Planning	72
Practical Implications of Self-management Planning	77
<i>Five. Medium-term Plans and Prospects</i>	<i>82</i>
Recent Developments	83
The Ten-year Plan for 1976-85	85
The Five-year Plan for 1976-80	89
Conclusion	107
 PART TWO. SIX ISSUES	 109
<i>Six. Stabilization</i>	<i>111</i>
Economic Trends: 1966-76	112
Factors of Instability and Inflation	116
Macroeconomic Policies	119

The New Legislative and Institutional Framework	129
Prospects for Stabilization	133
<i>Seven. Resource Mobilization</i>	136
Financial Institutions	140
Enterprise Savings	147
Household Savings	152
Resource Mobilization under the Social Plan for 1976-80	155
<i>Eight. Allocation of Investment Resources</i>	164
Efficiency of Resource Allocation	168
Structural Imbalances	175
Unresolved Issues of Resource Allocation	178
New System of Resource Allocation	183
Resource Allocation under the Social Plan for 1976-80	190
Technical Note. Analysis of the Sources of Growth: 1966-72	196
<i>Nine. Balance of Payments</i>	203
Geographical Trade Patterns	206
Exports of Goods	209
Exports of Services	212
Imports of Goods and Services	214
Capital Inflows and External Debt	218
Changes in Policy	225
The New Legislative and Institutional Framework	231
Prospects for 1976-80	236
<i>Ten. Employment</i>	244
Characteristics of the Labor Market	244
Labor Absorption	256
Employment Policy	270
Population, Active Labor Force, and Employment: 1975-85	276
<i>Eleven. Regional Disparities</i>	286
Dimensions of Regional Disparities	289
Causes of Regional Disparities	300
Measures to Redress Regional Disparities	302
Targets and Measures of the Social Plan for 1976-80	308
<i>Appendix. Social and Economic Statistics</i>	317
<i>Glossary</i>	369
<i>Index</i>	379

Figures and Tables

FIGURES

3.1. <i>Assemblies of Sociopolitical Communities</i>	46
6.1. <i>Retail, Industrial, and Agricultural Prices in Yugoslavia, 1952-76</i>	115

TABLES

2.1. <i>Growth Rates of Macroeconomic Indicators, 1954-75</i>	32
3.1. <i>Composition and Functions of Self-managed Organizations</i>	51
4.1. <i>Systems of Planning in Postwar Yugoslavia</i>	73
5.1. <i>Selected Indicators of Economic Growth and the Balance of Payments, 1970-77</i>	84
5.2. <i>Employment Status of the Labor Force, 1969, 1973, and 1975</i>	85
5.3. <i>Targets in the Ten-year Plan for 1976-85</i>	88
5.4. <i>Targets in the Five-year Plan for 1976-80</i>	89
5.5. <i>Growth of Output, by Sector and Branch, 1971-75 and Targets for 1976-80</i>	90
5.6. <i>Macroeconomic Indicators, 1971-75 and Simulations based on Targets for 1976-80 and 1980-85</i>	95
5.7. <i>Balance of Payments, Alternative Scenarios for 1980 and 1985</i>	98
5.8. <i>Absorption of Returning Migrant Workers and Reduced Unemployment, by Region, 1976-80</i>	100
5.9. <i>Gross Material Product per Capita, by Region, 1975 and Targets for 1976-80</i>	105
6.1. <i>Rates of Saving, Investment, Inflation, and Growth in Gross National Product, Yugoslavia and Selected OECD Countries, 1965-73</i>	112
6.2. <i>Indexes of Aggregate Demand, Foreign Trade, and Money Supply, 1966-75</i>	114
6.3. <i>Prices and Average Workers' Receipts, 1966-76</i>	114
6.4. <i>Structure of Budgetary and Extrabudgetary Receipts, 1966-75</i>	122

6.5.	<i>Composition of Revenue in Consolidated Budgets of Sociopolitical Communities, 1974</i>	123
6.6.	<i>Composition of Expenditure in Consolidated Budgets of Sociopolitical Communities, 1974</i>	125
6.7.	<i>Principal Determinants of Money Supply, 1965, 1970, 1973, and 1975</i>	128
7.1.	<i>Rates of Saving and Investment, 1961-75</i>	137
7.2.	<i>Gross Savings and Financial Savings, by Sector, 1961-75</i>	138
7.3.	<i>Structure of Resources of Business Banks at Year-end, 1965, 1970, and 1975</i>	142
7.4.	<i>Structure of Assets of Business Banks at Year-end, 1965, 1970, and 1975</i>	144
7.5.	<i>Distribution of Bank Credits at Year-end, by Sector, 1970 and 1975</i>	144
7.6.	<i>Balance Sheet of Investment Loan Funds at Year-end, Selected Years, 1962-75</i>	146
7.7.	<i>Scheme for the Computation and Distribution of Enterprise Income</i>	148
7.8.	<i>Distribution of Gross Material Product of Economic Organizations in the Social Sector, 1966-75</i>	151
7.9.	<i>Gross Investment in Productive Activities and Self-financing Rate of Economic Organizations in the Social Sector, 1966-75</i>	153
7.10.	<i>Household Receipts, 1966-75</i>	154
7.11.	<i>Household Savings and Investment, 1966-75</i>	154
7.12.	<i>Portfolio of Household Financial Savings, 1966-75</i>	155
7.13.	<i>Formation and Distribution of Total Resources, 1971-75 and Projections for 1976-80</i>	156
7.14.	<i>Direct Financing of Investment, by Sector, 1971-75 and Projections for 1976-80</i>	157
8.1.	<i>Capital Stock in Productive Activities of the Social Sector, 1952 and 1974</i>	165
8.2.	<i>Allocation of Investment in Fixed Assets, 1962-74</i>	167
8.3.	<i>Aggregate Incremental Capital-Output Ratio and Gross Domestic Product per Capita, Yugoslavia and Selected Countries</i>	169
8.4.	<i>Incremental Capital-Output Ratio for Productive Activities, Yugoslavia and Selected Countries, Averages for 1968-73</i>	171
8.5.	<i>Gross Profit Rate, by Region, 1974</i>	172
8.6.	<i>Net Profit Rate, by Sector and Branch, Averages for 1972-74</i>	173
8.7.	<i>Gross Profit Rate in Slovenia and Kosovo, by Sector and Branch, 1974</i>	174
8.8.	<i>Structural Coefficients, 1966 and 1972</i>	176
8.9.	<i>Import Content of Output, by Sector and Branch, 1966 and 1972</i>	176
8.10.	<i>Real Interest Rate, 1966-76</i>	180

8.11. <i>Structure of Investment, 1971-75 and Targets in the Social Plan for 1976-80</i>	190
8.12. <i>Structure of Investment in Fixed Assets for Productive Activities, 1971-75 and Targets in the Social Plan for 1976-80</i>	191
8.13. <i>Growth Rate of Gross Material Product and Incremental Capital-Output Ratio for Productive Activities, 1971-75 and Targets in the Social Plan for 1976-80</i>	192
8.14. <i>Growth Rate of Gross Material Product and Incremental Capital-Output Ratio, Estimates for 1971-75 and Three Variants for 1976-80</i>	193
8.15. <i>Decomposition of the Sources of Growth of Output, 1966-72</i>	198
8.16. <i>Decomposition of the Sources of Growth of Output, for Twenty-nine Sectors and Branches, 1966-72</i>	200
9.1. <i>Structure of the Current Account, Selected Years, 1962-75</i>	204
9.2. <i>Volume and Prices of Exports and Imports and Change in the Terms of Trade, 1972-76</i>	205
9.3. <i>Geographical Orientation of Trade, Selected Years, 1956-76</i>	207
9.4. <i>Trade Balances with the Convertible-currency and Bilateral-clearing Areas, 1968, 1971, and 1974</i>	208
9.5. <i>Growth of Exports and Production, 1956-75</i>	210
9.6. <i>Structure of Exports, by Sector of Origin, 1956, 1965, and 1975</i>	211
9.7. <i>Constant-market-shares Analysis of the Growth of Yugoslav Exports, 1961-65, 1965-70, and 1970-74</i>	212
9.8. <i>Import Elasticity, 1956-75</i>	214
9.9. <i>Total Import Content of Output and Demand, 1966-72</i>	215
9.10. <i>Decomposition of the Sources of Growth of Imports, 1966-72</i>	216
9.11. <i>Index of Imports, by End Use, 1966-76</i>	218
9.12. <i>External Debt Outstanding at Year-end, 1967, 1970, and 1975</i>	220
9.13. <i>Burden of External Debt, 1966-75</i>	222
9.14. <i>Nominal and Purchasing-power-parity Exchange Rates, 1966-75</i>	226
9.15. <i>Structure of Imports, by Category of Restriction, Selected Years, 1967-74</i>	228
9.16. <i>Internal Terms of Trade between Agricultural and Manufactured Goods, 1955-75</i>	229
9.17. <i>Growth of Foreign Trade, 1971-75 and Targets in the Social Plan for 1976-80</i>	236
10.1. <i>Personal Income in the Social and Private Agricultural Sectors, 1962-74</i>	247
10.2. <i>Rates of Unemployment, by Region, 1971-75</i>	248
10.3. <i>Personal Income in the Social and Private Agricultural Sectors, by Region, 1971</i>	249
10.4. <i>Labor Mobility, 1961-71</i>	250
10.5. <i>Incremental Labor Supply and Absorption, 1961-75</i>	252

10.6. <i>Effects of Age Composition and Labor Force Participation on Crude Activity Rates, Estimates for 1953-71</i>	253
10.7. <i>Crude Activity Rates, by Region, 1953-71</i>	254
10.8. <i>Sources of Change in Labor Use, by Sector, 1966-72</i>	257
10.9. <i>Employment in the Social Sector, by Economic Sector, 1975</i>	258
10.10. <i>Employment Elasticities and Fixed Assets per Employee, by Region, 1969-74</i>	261
10.11. <i>Capital Intensity in the Social and Private Nonagricultural Sectors, 1975</i>	265
10.12. <i>External Migration, by Region, 1971</i>	268
10.13. <i>Migrants Registered with the Yugoslav Employment Service, 1970-75</i>	268
10.14. <i>Growth of Population and Labor Force, 1970-85</i>	278
10.15. <i>Natural Increase in Labor Force and Absorption Requirements, Projections for 1976-85</i>	279
10.16. <i>Planned Return of Migrant Workers, Reduced Unemployment, and Absorption Requirements, by Region, Estimates for 1976-80</i>	280
10.17. <i>Labor-output and Capital-labor Ratios, 1972</i>	281
10.18. <i>Employment in the Social Sector, Estimates for 1976-80</i>	282
10.19. <i>Labor Force Balances, Targets in the Social Plan for 1976-80</i>	284
10.20. <i>Growth of Production and Employment in the Social Sector, by Region, Estimates for 1976-80</i>	285
11.1. <i>Income per Capita, by Region, 1954-75</i>	287
11.2. <i>Basic Social Indicators, by Region, 1975</i>	288
11.3. <i>Growth of Gross Material Product, Population, and Gross Material Product per Capita, by Region, 1966-75</i>	290
11.4. <i>Demographic Indicators, by Region, 1950-75</i>	291
11.5. <i>Distribution of Population, by Region, 1948-75</i>	292
11.6. <i>Indexes of Income Differences in the Social Sector, by Region, 1974</i>	293
11.7. <i>Household Income per Capita, by Region, 1973</i>	294
11.8. <i>Characteristics of Households, by Region, 1973</i>	296
11.9. <i>Distribution of Households, by Region and Household Income per Capita, 1973</i>	297
11.10. <i>Structural and Operational Coefficients for Productive Activities in the Social Sector, by Region, 1974</i>	298
11.11. <i>Distribution of Transfers to the Less Developed Regions, Prescriptions for 1971-75</i>	303
11.12. <i>Transfers to the Less Developed Regions, 1974</i>	304
11.13. <i>Investment and Transfers, by Region, 1974</i>	305
11.14. <i>Gross Material Product, by Region, 1975 and Targets in Social Plan for 1976-80</i>	309

A.1.-A.39. See separate listing on pages 317-19

Yugoslavia