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Yugoslavia: Self-Management Socialism and the Challenges of Development

(In Six Volumes)

Volume II

Part II: Self-Management Socialism—Contours of the System

March 21, 1978

Europe, Middle East and North Africa Region

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CURRENCY EQUIVALENTS

Before January 23, 1971

1 US dollar = 12.5 dinars

1 Dinar = 8 US cents

From January 23, 1971 to December 22, 1971

1 US dollar = 15.0 dinars

1 Dinar = 6.67 US cents

From December 22, 1971 to July 12, 1973

1 US dollar = 17.0 dinars

1 Dinar = 5.89 US cents

Since July 12, 1973

The Dinar has been floating.

The rate of December 31, 1977 was

1 US dollar = 18.445 dinars

1 Dinar = 5.42 US cents

YUGOSLAVIA: SELF-MANAGEMENT SOCIALISM AND
THE CHALLENGES OF DEVELOPMENT

PART II--SELF-MANAGEMENT SOCIALISM
--CONTOURS OF THE SYSTEM

Introduction

1.1 Over the last three decades Yugoslavia developed a unique socio-political framework (institutions and ground rules governing the actions and interactions of decision-making units) for managing its political, social and economic affairs. While the comprehensive exposition of the "Yugoslav system" would require to trace its origins back to Marxist political philosophy and political economy, and the history of their evolution and transformation into political praxis in Yugoslavia, this report takes a more modest approach. It focusses on the major normative concepts as they are reflected in the Constitution of 1974, in the extensive legislation emanating from it (32 "system laws" have been issued so far or are at this date still in various stages of implementation), and in the extensive discussions about system questions which were and still are being conducted in connection with either. Further, since this report deals with the economic development issues of Yugoslavia, the exposition is restricted to those concepts which directly or indirectly affect matters of economic management.

1.2 The presentation of Part II does not describe the reality of the Yugoslav system as of 1977 (a still rapidly evolving mixture of the "old" and "new" elements). Instead it sketches the major concepts and premises which in contemporary Yugoslav thinking are expected to shape reality in the years to come. While these concepts and premises determine the direction of evolution, they may not materialize in each and every aspect exactly as presented in this Part, for two reasons. First, the exposition is by necessity simplistic and does not cover the great variety of special provisions and exemptions which are already presently identifiable and which may eventually greatly affect the prevailing features of the actual system. Second, from the history of previous system changes one can expect that these basic concepts and premises will through "learning-by-doing" be refined and to some degree be pragmatically adjusted for the sake of smooth and efficient procedures.

1.3 Part II serves two purposes. First, Yugoslavia's system of "self-management socialism" differs considerably from the conventional models of both a pure market or pure centrally planned economy and cannot be rightly considered as a variant of either. While this report cannot attempt to sketch the appropriate pure model, it sets out in a systematic fashion the basic framework within which economic management of the Yugoslav system is to function. Second, the general description of this framework serves as a point of reference for the policy discussions related to development issues as carried out in Part III. These discussions acknowledge that in Yugoslavia--as in any country--certain policies and measures are (at a certain point in time) system-conform (and, consequently, acceptable tools), while others are not.

The analytical discussions of this report rest on the presupposition that the choice of "system" reflects a value judgment of society which is, by its very nature, a datum for the economic analysis and not its subject. However, while the choice of system cannot be questioned on economic grounds, its economic implications--strengths and weaknesses, costs and benefits--cannot be excluded from the analysis whenever the empirical or logical evidence for either is strong; these will be addressed, where appropriate, in subsequent chapters of the report dealing with the issues.

A. The Institutional Framework of the Yugoslav System

Historical Overview 1/

1.4 In the years immediately following World War II, Yugoslavia adopted a system of political, social and economic management closely patterned after the blueprint of the USSR, with state ownership of virtually all means of production, and central administrative controls. The first Constitution of 1946 stated categorically (Article 15) "...the state directs economic life and development through a general economic plan...", establishing what was subsequently referred to frequently as "administrative socialism" or "etatism". The same year the Federal Planning Commission was set up, and in 1947 the first Five-Year Plan was issued which was excessively rigid, stifling virtually any initiative outside strict administrative lines of command.

1.5 A decisive turn-around occurred in 1948 when Yugoslavia separated from COMINFORM, the now defunct international agency coordinating policies of the communist parties. This led almost overnight to a state of economic warfare (treaties being abrogated unilaterally, development loans being cancelled, and established trade links all but completely being severed) which caused serious repercussions for the economic development of Yugoslavia, evidenced by a once-and-for-all loss of the growth equivalent of five years during a period when economic growth momentum picked up strongly in most other countries of Europe. The traumatic break coincided with a critical reflection upon system premises adopted in conjunction with the blueprint of the USSR. Already by 1950 a new body of thought started to emerge, denouncing unrestricted state ownership and control as "state capitalism" (a transitional stage to socialism rather than its essence), and as resulting in new rigid hierarchical structures rather than liberation of the working man. During this creative phase of redefining the political premises on which a genuine socialist society should be built, the return to the original scripts of Marxism led to the conceptualization of the two guiding principles for the further evolution of the system: "self-management" (by the producers), and "socialist commodity production". The former was introduced into the system with the "Law on the Management of

1/ For a more detailed description of the evolution of the system between 1945 and 1975 see Horvat, Branko: The Yugoslav Economic System, 1976; Milenkovic, Debora: Plan and Market in Yugoslav Economic Thought, 1971; Milenkovic Debora: The Case of Yugoslavia, American Economic Review Vol. 67 (1977) No. 1; World Bank: Yugoslavia, Development with Decentralization, 1975.

Government Enterprises and Economic Association by Workers' Collectives" passed in 1950. It was the first step in providing workers with participation in the management of their work units, though in practice workers' councils remained for some time subordinate to the managers who were as a rule, appointed by, and responsible to, the state. The second principle (socialist commodity production) was first propagated by B. Kidric as a model of decentralized market socialism, providing the ideological rationale for embracing the market mechanism. By 1953 the new principles had firmly taken roots, as evidenced by the Constitution of 1953 which (in Article 4) states in stark contrast to the Constitution of 1947: "Social ownership of the means of production, the self-government of working people... represent the basis of the social and political system of the country...".

1.6 In the years thereafter, the initially very general notion of self-management filtered slowly from the realm of vision into practice. The scope of central administrative decisions gradually declined, whereas the autonomy of enterprises increased. In the sphere of resource mobilization and allocation the former continued to dominate, whereas in day-to-day operations the latter gradually gained ground. Since around 1960, practical questions about the respective roles of the state and of enterprises, and of the Plan and the market became increasingly focal issues. In 1961 three reform measures were introduced in order to increase the efficiency of the system and improve the quality of the goods produced. The economy was opened to the world markets, the financial markets were reorganized and, finally, control over wage determination was relaxed. The reform measures were, however, insufficiently prepared and hastily implemented. The increased role of the market was, as a consequence, soon (particularly since 1963) paralleled by increasing ad hoc policy measures, initially to increase the level of economic activity, and then to control inflation. The growing economic difficulties of the period and the encountered failures induced a national debate on whether solution lay in the further "liberalization" of the economy or in return to greater central control. In parallel to these discussions and to the attempts to arrive at a viable consensus, a new Constitution was promulgated in 1963.

1.7 The system debate concluded with a clear choice in favor of economic liberalization. This led, during 1964-65, to the issuance of a series of new reform measures, frequently referred to as "the economic reform". They included, inter alia:

- (a) reduction of the role of the Federal Government by transferring a large part of its responsibilities to the Republics;
- (b) increased integration of the economy into the international division of labor, by replacing a complex system of multiple exchange rates with a realistic unified exchange rate, and by introducing a considerable degree of import liberalization, regulated mainly by a new and rational tariff schedule;
- (c) transfer of the responsibility for resource mobilization and allocation from the state to economic enterprises and financial intermediaries (banks);

- (d) correction of the massive price distortions (established through the previous parallelism of rigidly administered and free prices) and curtailment of the system of price subsidies, and extension of the autonomy of enterprises in the field of price formation;
- (e) extension of enterprise autonomy to include the distribution of enterprise income into personal incomes (of the workers) and accumulation.

The objectives leading to these measures were: (i) to reduce the role of the Federation ("decentralization") and of the state in general ("de-etatisation") to the maximum possible degree; (ii) to introduce strong incentives for improvements of enterprise efficiency and quality of output; and (iii) to spread the fruits of increased capacity and improving productivity more widely to the population by raising the aggregate consumption rate. The economic reform initiated a phase frequently referred to as "Market Socialism", combining laissez-faire elements with residual state interference, now largely originating from the Republics rather than the center. Most of these changes brought by the economic reform were added to the Constitution of 1963 in the form of "constitutional amendments", passed during 1967 and 1968.

1.8 Throughout the period after the break with COMINFORM, the basic trend had been towards a gradual increase in the autonomy of individual work units. The constitutional changes and amendments persistently attempted to give more substance to the principles of workers' self-management by reducing the control exercised by state organs on enterprise decision making. The 1965 reforms reflected the culmination of this basic trend. However, the economic developments of the post-1965 period soon brought to the limelight difficulties on two fronts. First, it was not clear any longer what the legitimate role of the state would be. The process of de-etatisation had led in some instances to an effective dismantling of some policy instruments previously in the domain of the state (notably in areas of fiscal policy, resource allocation, and compulsory plan coordination and implementation), in other instances to its regionalization, and in either case without introducing appropriate alternative mechanism for coordination. Other policy instruments (such as incomes and price policy) were perceived as implicitly running counter to the spirit of self-management and were, consequently, pursued halfheartedly and erratically. In effect, the determination to strengthen self-management at the micro level had greatly reduced the scope for economic policies at the macro level, for both short-term management of the economy as well as the pursuit of more long-term objectives. Second, there was a growing concern with negative social political trends which emerged at the enterprise level, such as "group-ownership" (monopolistic practices) and "technocratism" (control by the managerial elite rather than by the workers). The attempt to cope more effectively with either difficulties led to the conclusion of a new set of "constitutional amendments" during 1971. They were followed by a new Constitution in 1974 which not only encompassed the constitutional amendments of 1967/68 and 1971, but gave full expression to the attempt to extend the principles of self-management to the body of macro-economic instruments. It reflected a realization that macro-economic management could not be dispensed with if short-term economic stability was to be ensured, and that at Yugoslavia's current level of development

some form of long-term perspective was indispensable. Hence macro-economic coordination was to be insured on the basis of new institutional and legal relations consistent with self-management principles, workers are to participate in all decisions relating to such areas as use of foreign exchange, allocation of investment funds, distribution of income, prices and employment. Thus, one of the significant innovations of the recent system changes is the extension of self-management from the micro to the macro sphere.

Political Premises of the Yugoslav System

(i) Self-Management

1.9 The dominating socio-political premise--applying to both political as well as economic matters--is "self-management". It designates direct democracy in the literal and dual sense: decision-making power is to be assigned to those individuals who are directly affected by the decisions, and these individuals are to control the decision-making process directly without autonomous intermediaries. 1/ This direct control applies to individuals in all social and economic relations, to citizens in their Socio-Political Communities, 2/ to workers or working people in the organization where they work, and to consumers of goods and services. In each sphere different institutional arrangements have been devised to organize and regulate self-management. Self-management in economic affairs rests on social ownership 3/ of the means of production. However, new hybrid forms of social and private ownership and control are now emerging which permit to some degree the extension of self-management to the individual sector. 4/

1/ Furthermore direct decision-making power distinguishes self-management from the concepts of "participation" or "co-determination" which imply some sharing of decision-making power.

2/ Yugoslavia has developed its own terminology for many elements of its socio-political system with a specific economic, legal and political connotation which is not conveyed by the literal translation. These terms are capitalized throughout the report; Appendix I provides a brief glossary.

3/ The discussions related to the constitutional changes reiterate the decisive difference between "social" ownership and both "state" ownership and "group" ownership. Yugoslavia's concept of social ownership is that society as a whole entrusts the control of the assets to the workers who are engaged in using them, obliging them to use these assets conscientiously for their own benefit and that of society, and excluding the earning of income other than that generated by labor (see paragraph 32).

4/ See paragraph 1.48.

1.10 To achieve a practically meaningful and efficient form of self-management, two conditions have to be fulfilled. First, the decision makers are organized in relatively small collectives within which the members have fairly homogenous views and interests and are able to develop some form of dialogue and personal communication on matters of common interest. In the social and political sphere, the communes 1/ have been instituted to act as the basic collectives for decision making. In the economic sphere, the Basic Organization of Associated Labor (BOAL) 2/--the smallest operating unit (within a larger organization) which produces a marketed or marketable output--constitutes the basis for decision making. 3/ The key position of the BOALs rests on two legal provisions: (a) every decision of a larger legal entity consisting of a group of BOALs must rest on the agreement by all constituent BOALs, and (b) every BOAL has the right to split off from such broader organizational units, provided separation does not endanger survival of the remaining BOALs.

1.11 Second, mechanisms are instituted which permit a dialogue between these smallest decision-making units (within larger units) for arriving at a coordination of interests and intentions without violating--de jure or de facto--the principle of direct control. To that end, the "delegate principle" is introduced: Workers or citizens elect on the lowest level of organization "delegations" among themselves. Their members ("delegates") elect among themselves delegates for representing the respective community at the next wider level of organization, where they form again a delegation representing a wider group, etc. This stepwise election process can range over several stages (e.g. BOAL, Commune, Republic, Federation). The role of the delegate is basically different from that of the "representative" in a system of parliamentary democracy. In contrast to the latter, delegates are obliged to solicit on any specific pending decision the views of their respective constituency, to express them in the decision-making body to which they are delegated, and to report back to their constituency; delegates can be recalled any time by their constituency if they lose its confidence. Further, delegates are expected to share the same socio-economic background of their constituency, and to return to their previous working or living environment, and to their social and economic position after their regular term has expired. Thus, representation as well as decision making is to work from the "bottom up" rather than "top down".

1.12 Subsidiary to self-management is the principle of "equality" (if not overridden by the principle of unanimous consensus), which rules out in most decisions weighting of voting rights or majority voting. For example, delegations of each Republic have the same weight in the Federal Assembly regardless of population size; delegations of different BOALs in an enterprise have an equal voice (although not necessarily an equal number of delegates) regardless

1/ See paragraph 1.14.

2/ See paragraph 1.27.

3/ See Law on Associated Labor, Art. 320.

of size or any financial yardstick; and member organizations of a bank are equal regardless of volume of deposits or credits.

1.13 Adherence to the principle of self-management and equality leads to the general rule that decisions should be by consensus among all parties. Exemptions from this rule are made if the search for consensus leads to excessive delays or to deadlocks which are detrimental to third parties or society as a whole. To prevent such occurrences, other mechanisms can be applied as specified either by the Constitution or by law, or by the by-laws of specific organizations. In some instances decisions are left to majority voting (e.g. decisions within a BOAL). In other instances a temporary ruling can be imposed until consensus has been established (e.g. the Presidency can promulgate a law if the Assemblies and the Republics cannot agree through their delegations in the Federal Assembly or the Federal Executive Council can, with concurrence of the Presidency, adopt measures even if the corresponding Republican government organs have not agreed). In still other cases detailed guidelines for arriving at decisions can be stipulated (e.g. assemblies of Socio-Political Communities can oblige enterprises to face imposed decisions unless they settle specific matters among each other by a certain date).

(ii) The Role of the State

1.14 The "state" in its widest meaning (parliament, government, administration and budgets) is organized in three layers of "Socio-Political Communities": the Communes, 1/ the Republics and Autonomous Provinces, 2/ and the Federation. Each layer of the state has its own assembly (parliament), constituted of two or three chambers in which the citizens and working people are

1/ Yugoslavia has 510 communes. Their average size is around 40,000 inhabitants, but the range extends from below 10,000 to more than 100,000.

2/ Yugoslavia has six Republics. The largest, Serbia, incorporates two subregions each has the status of an autonomous province; Serbia, thus, comprises three Socio-Political Communities at the intermediary level of the state. Notwithstanding some differences in the size of delegations in the Federal Chamber between Republics and Autonomous Provinces, the latter have largely equal status with the former. Thus, the report will apply the term "Republic" equally to Autonomous Provinces, unless otherwise specified.

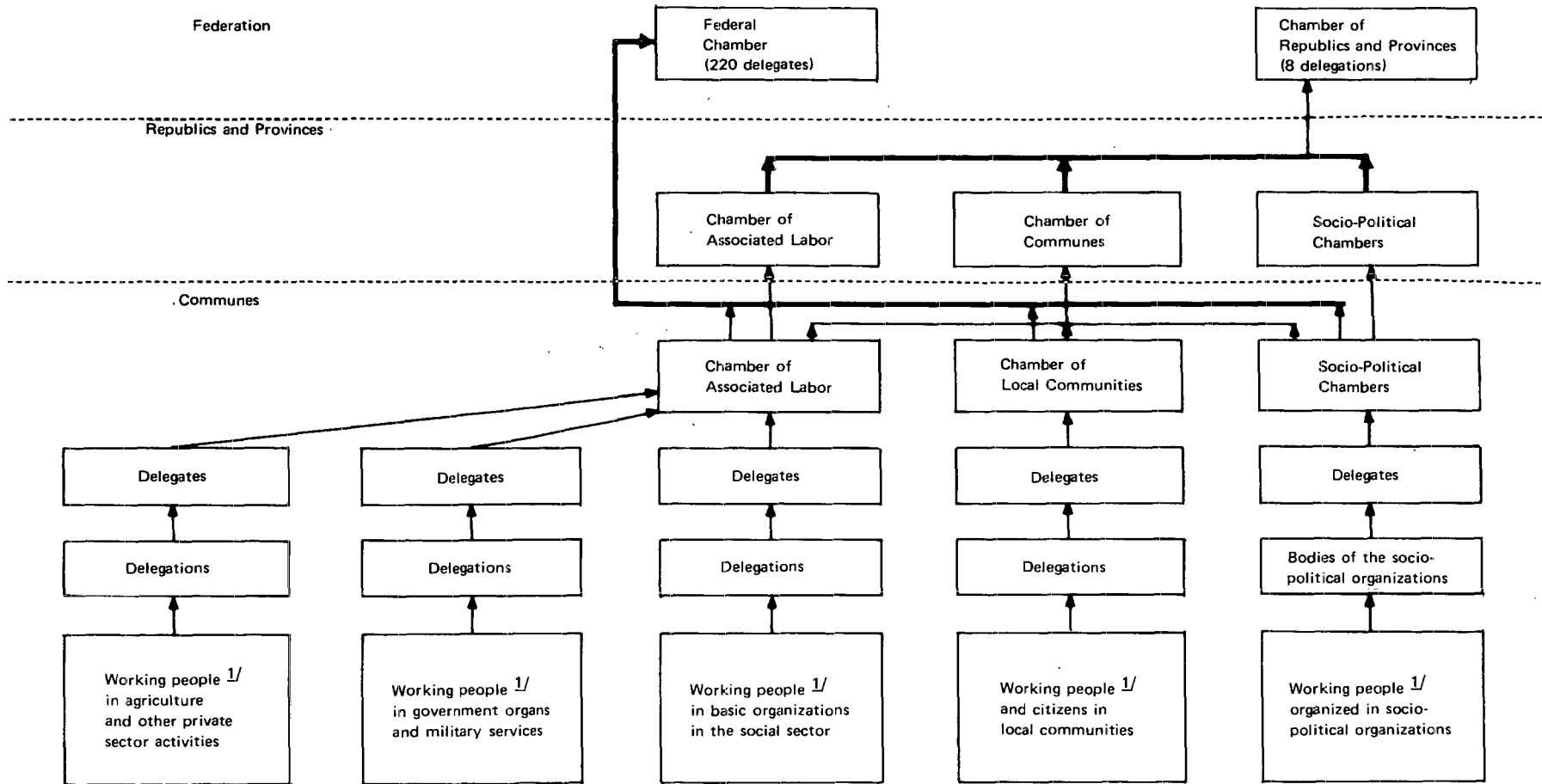
represented through their delegations or delegates. ^{1/} Graph 1 gives an overview over the election and stratification of assemblies on the three levels. It is worth noting that, contrary to the ground rules of the system of parliamentary democracy, the assemblies hold both legislative and executive power. The assemblies elect an Executive Council (the "government" in the narrow sense) which is responsible for implementing the decisions of the assembly, and for advising the assembly on decisions which need to be taken. On matters which require a particularly close cooperation among the Federation and the Republics, joint Federal or interrepublican committees are established among members of the respective Executive Councils. The Executive Councils discharge of their duties through the administration, organized in Secretariats, Federal Committees (only within the Federal Government) and specialized institutions (e.g. planning institutes, statistical offices, etc.) who report each to individual members of the Executive Councils.

1.15 The self-management principle affects the role of the state in two ways: First, its functions are decentralized to the largest possible degree: legislative and executive power is assigned to the lowest level of the Socio-Political Community on which action can be taken autonomously without disrupting or endangering consistency. For example, on economic policy matters, the primary responsibility for relations with other countries and monetary policy rests with the Federation; the maintenance of the "unity of the Yugoslav market" is the joint responsibility of the Federation and the Republics, and the creation of economic enterprises and their coordination falls into the realm of the Republics or communes (depending on the activity in question). Similarly, for certain activities which have been singled out by agreement among the Republics as being of "special importance", coordination is carried out on the Federal level with the active participation of the Republics; for all other activities, planning is carried only to the level of the Republic or even the commune.

1.16 Second, the state is to the largest possible degree removed from management of economic and socio-economic matters, and is restricted to resolve conflicts between competing views and intentions (mainly in the sphere of planning) which cannot be reconciled otherwise, to establish consensus on broad objectives and policy guidelines, to carry out preagreed administrative measures, and to monitor implementation of plans and actual development. Even in

^{1/} The Communes have three chambers. The Republican Assemblies also have three chambers, (a) the "Chamber of Associated Labor", composed of delegates representing the workers and working people, (b) the "Chamber of Communes" whose members are nominated by the assemblies of the communes, and (c) the "Socio-Political Chamber" (see paragraph 1.18). The Federal Assembly is composed of (a) the "Chamber of Republics and Autonomous Provinces" with a delegation for each Republic representing the Republican Assembly as a whole, and (b) the "Federal Chamber" whose delegates are elected by the assemblies of the communes among candidates nominated by the Socialist Alliance (see paragraph 1.19).

Graph I
Yugoslavia
Election of Delegates and Delegations to the
Assemblies of Socio-Political Communities



Source: From Yugoslavia Survey, Vol XVIII, No.1,
Febr. 1977

^{1/}
"Working people" are equivalent
to "active persons".

the area of policy formulation, the state is restricted to those issues which, in the interest of society as a whole, cannot be left to self-managed non-state coordinating bodies or mechanisms such as Economic Chambers or Communities of Interest. The actual involvement of the State in particular policy matters is usually regulated through "Social Compacts", 1/ which restrict the scope for discretionary interventions of the state and require as a rule some form of prior agreement with the above-mentioned self-managed non-state coordinating bodies which are cosigners. The restricted role of the State can, conversely, be described by major functions from which it is clearly excluded. Most prominently: (a) the State has no managerial or administrative control over social services like education, health, social security, nor does it regularly finance them through its budgets; (b) the revenues of the State are restricted to the resources necessary for financing "general consumption" (i.e. current expenditures for the classical state functions, like administration and defense) as the major items, some minor social transfers, and compensation payments to organizations whose ability to earn adequate income is impeded by collective actions; (c) society and not the State owns the means of production, their control is assigned to the workers who use them, and the self-managed enterprises and other organizations have the responsibility to mobilize and allocate investment resources; and (d) the state does not intervene in any transactions among enterprises and organizations, with the exception of direct control of prices for a few key items (like railway, PTT and energy tariff rates). In these instances, however, the State is liable for providing compensation if prices are not appropriate for producers.

1.17 As to the long-term evolution, a strong anti-etatist streak is clearly prominent in the Yugoslav system, and the role of the State has consistently declined since the early 1950's. This trend is likely to continue, as, with the further evolution of the system, additional present functions of the State are gradually to be absorbed into the self-managed coordinating bodies mentioned in paragraph 1.16, or directly by large integrated "complexes". 2/

(iii) The Role of Socio-Political Organizations

1.18 The Socio-Political Organizations--the League of Communists, the Socialist Alliance, the Trade Unions, the Youth Federation and the Association of Veterans--have in the new Constitution a defined and explicit role. The delegates who make up the "Socio-Political Chamber" (one of the three chambers of the assembly of each Republic) are nominated by the Socio-Political Organizations. The function of this chamber is to correct for positions reflecting particular interest which might be adopted by the other two chambers, and to serve as the body which is specifically and exclusively concerned with matters affecting the political system and its evolution. Since the Republican Socio-Political Chamber nominates jointly with the other two Republican chambers the delegation of the Republic for the Federal "Chamber of Republics and Autonomous Provinces", the Socio-Political Organizations are directly represented in the

1/ See paragraph 1.22.

2/ See paragraph 1.35.

Federal Assembly as well. Similarly, the Socialist Alliance nominates at the level of the communes the candidates for the first chamber of the Federal Assembly.

1.19 The Socialist Alliance is a broadly based mass organization comprising all citizens who share acceptance of the principles of socialism. In 1972 its membership was equivalent to around 95 percent of the adult population. The Alliance, in addition to its above-mentioned function of nominating candidates for the Assemblies of Socio-Political Communities, serves as a forum for discussion of current political, social and economic issues and provides for a feedback between the citizens and the Assemblies of the Socio-Political Communities, including the initiation of action by the Assemblies.

1.20 The League of Communists (LCY), with a membership size of only around 15 percent of that of the Alliance, is a much more tightly knit Marxist cadre organization. After a period of increasing regionalization within the LCY and its gradual withdrawal from active political participation during the latter part of the 1960's, the LCY has reasserted itself in the 1970's as the unified source of political guidance and as the "organized force of socialist consciousness". It is spearheading the political development, with respect to both the foundations and the evolution of the system, and the identification of major objectives of social and economic development. Prime examples of the involvement of the LCY in concrete economic issues are resolutions of the Xth Congress (in 1974) when the objective of the present Five-Year Plan were set out, and when the drastic reduction of inflation was stipulated as the major short-term policy objective. Although resolutions of the LCY have no legal force, they oblige--due to the Marxist/Leninist principle of "democratic centralism" 1/--its members to act (in whatever function or position) in the process of decision making of the organization in which they work or community in which they live in accordance with the resolutions. Thus, resolutions of the LCY are likely to affect strongly the subsequent debate and to find their way into concrete legislative or executive decisions. It is also worth noting that resolutions of the LCY are based on extensive internal discussions supported by substantive analytical work carried out by or through special commissions. The

1/ In essence: unrestrained discussions prior to resolutions, but unwavering determination to act in accordance with the resolutions thereafter. The principle of "democratic centralism", and the fact that it applies to the politically most active segment of society, constitute a strong cohesive force and a nucleus of positions in the decision-making processes at all levels. This is one of the reasons why effective decisions can be arrived at on major issues in an otherwise unstructured setting. A case in point is probably the campaign for reducing the inflationary momentum in the economy, launched in 1975. The contribution of a number of specific new laws and measures notwithstanding, the campaign would probably have been less successful without the suasion originating from the LCY.

attention of the LCY not only focusses on broad policy issues like those mentioned above, it can also be directed to specific ones for which the regular decision-making process did not function. 1/

1.21 The membership of the Trade Unions is about equal to total employment in the social sector. The major function of the Unions is to guide self-management within the organizations (BOALs, enterprises and other self-managed organizations) through initiating and organizing the procedures which are subject to self-management. 2/ In addition, the Unions initiate Self-Management Agreements (among BOALs within larger enterprises, or among enterprises within sectors and branches) or Social Compacts (within or among Republics) on income distribution and other matters affecting the material position of the workers, and they are cosigners of the latter.

Instruments and Organizations of Self-Management

(i) Social Compacts and Self-Management Agreements

1.22 In order to organize economic relations among the various agents in accordance with the principles of self-management, Yugoslavia has introduced unique legal instruments: Social Compacts and Self-Management Agreements. Social Compacts regulate rights and obligations affecting broader economic issues and policies. 3/ They are concluded among Socio-Political Communities and, in many instances, also by Economic Chambers, Trade Unions, and economic enterprises (usually Associations 4/ of enterprises rather than individual ones). Self-Management Agreements regulate rights, obligations, etc. within and among economic organizations (like BOALs, enterprises, banks) and are frequently quite specific. Common to both is that the procedures for conclusion are public, that they are to be published after conclusion, that the parties to either are equal (i.e. in most instances no weighted voting rights), that they are valid only for parties who are directly or through some authorized intermediary (like Economic Chambers or Associations for enterprises) signatories, and that adherence by the signatories is either legally mandatory (in the case of Social Compacts), or is de facto all but ensured by specific financial penalty provisions for non-compliance (in the case of Self-Management Agreements).

1/ An example is the direct involvement of the LCY, at the end of 1976, in matters of transport sector policy of the country, and specifically the unfavorable financial position of the railway enterprises.

2/ See paragraphs 1.33 and 1.43.

3/ "Social Compacts" ensure and adjust self-management regulation of socio-economic and other relations of broader common concern to the parties to the compact, or of general social concern". (Constitution Article 124).

4/ See paragraph 1.43.

1.23 Issues regulated by Social Compacts are, for example, determination of sector or branch priorities of the Social Plans, principles and criteria for price, employment and foreign trade policies, and distribution of income (functional distribution of income between personal incomes and accumulation). The conclusion of Social Compacts is in many instances initiated by Socio-Political Communities, and frequently the Social Compacts lay down obligatory provisions and ground rules for subsequently concluded specific Self-Management Agreements. In other instances Socio-Political Communities can adopt regulations which oblige specific organizations to conclude Social Compacts, thus in a great number of cases they set for all practical purposes the basis for macro policies although their legal format makes them appear as civil, i.e., micro contracts. In these instances, they substitute for policy measures which in most other countries would be regulated either by law or by traditional economic policies, carried out autonomously by government agencies, but in either case from above and without direct participation of the affected parties. Once concluded, however, Social Compacts have for all practical purposes the force of law. 1/

1.24 Self-Management Agreements are to regulate all relations--rights and obligations--within, among and between economic organizations, with the exception of those current transactions (sales and purchase) which remain outside the realm of "sharing of jointly realized income and risk". 2/ Self-Management Agreements may be concluded for a specific period of time (in many instances the Five-Year Plan period determines the time horizon), or without time limit, or for a specific purpose regardless of time, depending upon the subject matter. Examples of matters regulated by Self-Management Agreements are: (a) formation of BOALs, enterprises and banks; (b) distribution of jointly earned income among BOALs (within an enterprise) or among enterprises which are integrated into "Reproduction Entities" 3/; (c) medium- and long-term delivery contracts and principles for establishing transfer prices among associated BOALs or enterprises in Reproduction Entities; (d) criteria for distribution of the net income of BOALs between personal incomes and accumulation; (e) the use of generated investment resources within the BOALs, and their pooling among BOALs within enterprises or Reproduction Entities. 4/ Adherence to the objectives of the Social Plans is frequently a two-layer arrangement: Social Compacts set out the agreements on principles, and subsequent Self-Management Agreements regulate implementation in detail as carried out by the enterprises themselves in accordance with the principles.

1/ Social Compacts cannot be abrogated prior to the period of the validity specified in the Compact, or unless jointly agreed by all parties. The Law on Associated Labor states, without specific sanctions for non-compliance, that "the parties to Social Compacts shall be held socially and politically responsible in the event they shall not carry out their obligations" (Article 558).

2/ The notion of "sharing of income and risk" is discussed in paragraph 1.30.

3/ See paragraph 1.38.

4/ See paragraph 1.31.

1.25 Although Self-Management Agreements are binding to all parties, adherence is not legally enforceable. Parties to Self-Management Agreements may--because of force majeure, or inability for which they can be held responsible, or change of priorities--default on their obligations. However, default is severely penalized by provisions for financial compensation to other parties to the Agreement, graduated by the cause and the effects of default. In addition, any deliberate or negligent breach of a Self-Management Agreement would apparently stigmatize the defaulting organization, hurt its ability to enter into other Agreements and--in an environment where most relations are regulated by Self-Management Agreements--isolate it with the potential for doom. It seems, thus, that Self-Management Agreements will, as a general rule, be adhered to by all signatories, unless there is consensus to dissolve or to change the Agreement.

1.26 The right to codify mutual relations in Self-Management Agreements could have the potential for misuse and for harm to outsiders if it were unrestrained (it could, for example, lead to monopolistic or oligopolistic arrangements). The Law on Associated Labor clearly acknowledges this potential danger and contains it by two provisions: (a) Self-Management Agreements have to be published prior to effectiveness, and (b) either the adversely affected organizations, or Socio-political Communities or Trade Unions (in case legal provisions or the public interest are violated) may object to the Self-Management Agreement. This obliges all parties to re-examine the initial Agreement. If the objections are not subsequently withdrawn, the disputed Agreement can be submitted to special courts ("court for associated labor") for compulsory arbitration. These courts would, in addition, settle all other disputes which arise from Self-Management Agreements.

(ii) Economic Enterprises

1.27 In Yugoslavia's political and legal terminology the equivalent to the "enterprise" is the "Working Organization". 1/ Most enterprises are comprised of several BOALs; each technical unit which produces an output which could be sold on the market (regardless of whether it is actually marketed or transferred to another BOAL within the same enterprise) is to form a separate BOAL. 2/

1.28 While the emphasis of the economic reform of 1965 was the autonomy of the enterprise (in effect shifting much of the decision-making power from state organs to enterprise management), the constitutional changes of 1971,

1/ This report assumes for practical reasons throughout the term "enterprise".

2/ For example, an integrated cotton textile mill would probably be divided into a BOAL each for spinning (including the preparatory stages), weaving, finishing (dyeing, etc.), and final processing (e.g. ready-to-wear), and retail outlets. The law does not specify any minimum or maximum size of BOALs, and individual BOALs may be as small as a few dozen and as large as more than a thousand workers.

the Constitution of 1974, and the subsequent legislation, established the BOAL as the major decision-making unit. This shift reflected two major considerations, (a) enterprise management, particularly in big diversified enterprises, tended to acquire such an overpowering position in the decision-making process that the very notion of self-management (direct decision making by the workers) became increasingly meaningless, and (b) the autonomy of enterprise management was increasingly felt to lead to a breakdown of direct coordination among enterprises affecting adversely the efficiency of the economic system. 1/ The importance of this shift for actual decision making can be gleaned from several key provisions, e.g.: (a) BOALs have the right to disassociate from the enterprise (after settling existing obligations) and to either form an autonomous enterprise or to join another existing one unless the breakaway would endanger the survival of the remaining BOALs; (b) the plan of each enterprise or broader legal person has to be accepted by all constituent BOALs to become valid; (c) "income" 2/ (prior to distribution) is computed separately for each BOAL on the basis of internal prices determined by the business success of the whole enterprise and the contribution by each BOAL; 3/ (d) distribution of generated income into personal income and accumulation is decided by the BOAL within the frame established by Social Compacts and Self-Management Agreements; and (e) the use of accumulation for investment is, within the frame of Social Compacts and Self-Management Agreements, decided by the BOAL, and if generated investment resources are made available to any other organization (BOALs within the enterprise, or directly or through a bank to other enterprises) they have to be returned to the BOAL from which they originated unless ceded by Self-Management Agreements.

1.29 While the definition of the BOAL is fairly straightforward, that of the enterprise is less sharply drawn. According to the Law on Associated Labor, it is to comprise workers (in most instances organized in several BOALs) who are "linked by common working interest" or "directly linked by a unified process". 4/ The "common interest" is established by the fact that the BOALs regularly generate "joint income". In contrast to BOALs which are indivisible and conceptually "permanent", the enterprise is an "association"

1/ With respect to both considerations, the internal debate on system changes referred to distortions created by "managerial", or "technocratic" forces within the economy, and its association with the same forces in banking and trade (see paragraphs 1.39 and 1.44).

2/ Sales minus purchases from other organizations, statutory depreciation and various contractual and legal obligation, compare Appendix IV.

3/ For a more detailed discussion of the problems associated with internal prices, see paragraphs 1.30 and 1.56.

4/ Law on Associated Labor, Art. 346.

of BOALs which may change its composition and, through such changes, its orientation according to the needs of the market and the choice of its members. 1/ An enterprise is, in fact, a special--and the most highly organized--variant of the general form of "association of labor and resources" entered into by BOALs (individually, or as a group).

1.30 BOALs are expected to enter into "association of labor and resources" with functionally linked BOALs in order to improve their individual capacity to earn income. 2/ The income thus created is considered "joint income" and shared among the participating BOALs; BOALs associated in an enterprise hence, share risks, gains and losses. The association and the provisions which regulate the cooperation of the associated organizations--like purpose and objective, delivery relationships, criteria for determination of internal prices, computation and distribution of jointly earned income, use of windfall revenues (unearned in the regular course of work) and sharing of windfall losses, joint planning or harmonization of plans, establishment of coordinating organs or bodies, duration of the association, etc.--are all to be regulated by Self-Management Agreements. Any association that is regarded as a long-term arrangement, as a rule, is at least for a Five-Year Plan period.

1.31 "Pooling of resources" 3/, that is joint self-financing of investment, is usually integral to any association. It can take two forms--either as what could be termed "joint venture pooling" or as a conventional credit relationship. In joint venture pooling BOALs (or enterprises) make resources available to other BOALs, (or enterprises) either with the right of sharing in the income thus created, and the associated risk, or against some other benefit (like delivery commitments and price arrangements). The right to sharing in income from pooled resources, however, has to be limited, either to the amount of the contributed resources with or without an additional specified "compensation" (regardless of the time), 4/ or by the period over which income can be shared (regardless of the amount transmitted). Joint venture pooling, thus, establishes a temporary (although renewable) financial partnership between the participating BOALs (or enterprises), which engage in the risks, gains and losses according to some preagreed formula. Credits with fixed contractual repayment terms and with or without an additional specified "compensation" in

1/ An enterprise specialized historically in, say, agricultural machines could enter into tractor manufacture in conjunction with a group of BOALs engaged in the manufacture of diesel engines, and mechanical and hydraulic gears, but excluding from the operation a BOAL for forging which remains oriented towards customers outside the new activity.

2/ Prior to distribution between personal income and accumulation.

3/ "Resources" is in this context equivalent to "associated resources" or "past labor"; "resources", thus, correspond to financial resources for investment. Compare Law on Associated Labor, Arts. 84-85.

4/ The Law permits repayment in accordance with "revalued" fixed assets, i.e. some form of indexed repayment correcting for the effects of inflation.

the form of a preagreed interest rate can also be extended directly from one BOAL (or enterprise) to another, or through earmarked deposits in banks. However, the text of the law, other documents, and comments on the spirit of the system changes leave little doubt that joint venture pooling with shared income and risks is expected to gradually become the rule since it is regarded as more compatible with self-management. In any event, the decisive feature is that the right of BOALs to retain the exclusive permanent control over the resources at their disposal cannot be infringed upon by any pooling arrangement, and no equity-type financial arrangements are possible which establish any permanent control and claim to income.

1.32 The right to self-management is associated with special responsibilities. The most obvious example is the computation of remuneration. Workers on any level of education or skill do not receive "wage" or "salary"--i.e. contractual payments regardless of the result of work--but only receive some share of the "income" 1/ of the BOAL in which they work. Workers, thus, participate through the size of the personal income they receive to a considerable degree in the success or failure of the organization whose affairs they control. The participation is not unlimited. If personal incomes fall temporarily below a certain limit for reasons other than mismanagement or gross inefficiency, an interenterprise solidarity (i.e. insurance) fund provides for the difference. On the other hand, revenues collected by the enterprises which are the result of "exceptionally favorable conditions" are excluded from enterprise income and, hence, from distribution to personal income (Constitution, Article 18). In addition, the distribution of income of the BOAL is to a considerable degree predetermined through Social Compacts and Self-Management Agreements (see paragraph 1.22). Further, Article 19 of the Law on Associated Labor explicitly states that the workers are "responsible" for the rational and efficient management of the social resources at their disposal; this includes the obligation to renew them and to ensure their expansion. Conversely, workers "shall bear material and other consequences" if they fail to do so for reasons for which they or their elected management organ are responsible. However, the individual responsibility does not extend to the job itself: with the exception of cases of criminal or severe personal misconduct affecting the whole working community, workers cannot be laid off. Either the BOAL, or the enterprise (or, if a broader arrangement on that matter has been concluded) joint "solidarity funds" have to provide for equivalent substitute employment.

1.33 A particular feature--the internal working of self-management--of the Yugoslav system needs to be stressed in connection with enterprises. In both BOALs and enterprises, the law stipulates organization of management in three layers: a "workers' council", an "executive organ", and a "management organ". The workers' council, 2/ consisting of delegates elected by secret

1/ Sales minus purchases, depreciation, and various contractual and legal obligations. Compare Part III, Chapter II, paragraphs 2.28-2.33.

2/ With the exception of BOALs or enterprises with less than 30 workers, in which case all workers perform the function of the workers' council.

ballot from within the working community and from a list of candidates prepared by the Trade Unions, is the highest organ of decision making. Among its competences are: acceptance of the respective organization's plan and financial statements; formulation of its policies on business and on distribution of income; and election and discharge of, and control over, the executive and managerial organs. The executive organ can be set up by the workers' council for specific functions within the domain of the workers' council. Its members are elected from and among the delegates making up the respective workers' councils. The normal term of delegates of the workers' council and the executive organ is two years, with the possibility of reappointment.

1.34 The management organ can be a single business manager or a managing board of unspecified size. In either case, the position has to be publicly advertised and the choice among applicants is made by the workers' council. The regular term of the management organ is four years, but reappointment is possible. The management organ has a dual responsibility to the organization and to society at large. On the one hand, it is responsible for carrying out the decisions taken by the workers' council and for handling the day-to-day affairs of the organization according to its plan and business policy, and according to procedures laid down in the Self-Management Agreement on the establishment of the organization. The Law on Associated Labor specifies that the management organ has, in order to carry out its responsibilities, the right to give directives to workers for performance of specific tasks necessary in connection with the implementation of the plan and the business policy including the right to suggest disciplinary measures. The management organ, however, has no right to hire or fire workers, or to take any disciplinary action, or to determine the internal income distribution. On the other hand, if the workers' council or the executive organ takes decisions or requests actions, which violate any legal provisions or Social Compacts or Self-Management Agreements, the management organ has the duty to warn against implementation. In the event implementation is insisted upon, the management organ has not only to refrain from participating, but to inform the competent agency of the respective Socio-Political Community of the violation. 1/ The terms of appointment notwithstanding, the management organ is subject to recall at any time--in cases of negligence, incompetence, legal misconduct or inability to maintain cordial relations with other bodies. Proceedings for dismissal can be initiated either by the workers' council, the assembly of the commune or the Trade Union, with the final decision open to appeal and/or compensation, taken by the workers' council.

(iii) Integration

1.35 The very definition of the BOAL--a distinguishable production unit which produces an output which could be marketed autonomously--could in principle have led to an atomization of the economy into as many autonomous units

1/ This social obligation of the management organ, backed up by civil and criminal penalty provisions, is apparently a powerful means for controlling violations of legal or contractual obligations of the enterprise.

as there are BOALs, 1/ and the regulation of their mutual relationship through a market mechanism. However, this route was clearly refuted in favor of "association of labor and resources." It seems that two reasons led to this different form of organizing economic relations. First, the creation of an atomized competitive structure is regarded as potentially divisive by strengthening "group ownership" behavior and undermining the socialist principle of solidarity. Second, such an atomized structure would make planning, considered essential for achieving efficiency of the economic system, all but impossible. Thus, a clear choice was made for what is referred to as "integration".

1.36 "Integration" (of BOALs or enterprises) is not a new term, nor is its promotion new. Particularly during the late 1960's the agglomeration of enterprises into large diversified quasi-conglomerates 2/ was a general phenomenon, supported by some tangible micro-economic benefits (such as distribution of financial risks, financial control over supply or demand), and propelled sometimes by the belief that "bigger is better", and sometimes by the vigor of strong management teams. The creation of the BOALs and the accompanying shift of decision-making power from enterprise management back to the BOALs after 1971 put an end to this momentum. Integration is being promoted again, but the emphasis is now for integration along functional lines.

1.37 Integration can take two major forms, either in the "Composite Organization of Associated Labor" or in "Reproduction Entities". 3/ The Composite Organization is defined by the Law on Associated Labor as a legal entity comprising several enterprises which are in the chain of production either vertically or horizontally linked. The purpose of horizontal linkage would be an increased specialization or the achievement of greater economies of scale among enterprises engaged in the manufacture of similar products.

1.38 In contrast to the Composite Organization, the Reproduction Entity is not a defined legal form. The term rather refers to a group of enterprises

1/ Reportedly, the number of registered BOALs approximates 46,000.

2/ Usually grouped around some nucleus generating high accumulation, like a technological growth pole, an activity enjoying a high degree of market domination or foreign trade.

3/ The Law on Associated Labor also specifies other legal forms of partial integration, like "business communities" and "communities for planning and business cooperation"; but whatever the fine legal distinctions, for all practical purposes they seem to come conceptually close to the Reproduction Entity and are, in fact, in many instances the legal form in which the latter are constituted.

which are closely vertically linked by forward or backward delivery relationships 1/ and which have formalized their long-term relations in Self-Management Agreements on association, as sketched in paragraphs 1.30 and 1.31. All the aforementioned aspects of association (between BOALs) within an enterprise are fully applicable, including the creation of common management organs. The only distinct difference of the association of enterprises in a Reproduction Entity is that in the latter case the individual members can simultaneously be members of several such Entities. There seems to be no significant economic difference between a vertically organized Composite Organization of Associated Labor and a Reproduction Entity. Nevertheless, discussions and documents suggest that the Reproduction Entity is predominantly viewed in Yugoslavia as the form in which integration is to be established, and that in the long run the autonomy of enterprises may to some degree be reduced between the strengthening positions of the BOALs on the one side and of the Reproduction Entities on the other.

1.39 The new thrust of integration has decisively changed the position of trade enterprises. In the past, when they operated autonomously in purchasing and selling operations, many of the bigger ones (particularly those engaged in foreign trade) developed into major profit centers in the economy, in part due to managerial skill, and in part to a powerful market position. While the distribution of the profits as personal income to the workers in trade enterprises was prevented through income ceilings, the trade enterprises had no restriction on the use of the undistributed profits. They used it either to grow gradually (through mergers with financially weak production enterprises or creation of new units) into diversified quasi-conglomerates, 2/ or by tying hard-pressed production enterprises through credit/delivery contracts into a permanent dependency position. This tendency toward growing concentration of resources and ultimately of economic power in the trade sector was regarded as a violation of the principles of socialist self-management, because the workers of other stages of production were deprived of their contribution to the total value of output and of their right to participate appropriately in its allocation. The concentration of resources and power was also deemed economically undesirable since trade enterprises are considered to be especially prone to short-term profit maximization rather than to balanced long-run growth. The new Constitution and the Law on Associated Labor 3/ put an end to

1/ Reproduction Entities, thus, tend to be organized along rows and columns of input/output tables. They can extend over all stages of production, for example from coal mining over power generation to major power consumption (like electrolytic processes in metallurgy and the chemical industry). The linkages can even include investment goods deliveries, such as power generation equipment, and major inputs for their manufacture, such as ferrous and non-ferrous metal intermediary goods.

2/ See paragraph 1.36.

3/ Constitution, Article 43.

the autonomy of trade enterprises. They prescribe the association with production enterprises--with all the previously described features, 1/ like sharing of income and risk, joint price policy, pooling of resources, joint planning, codification in Self-Management Agreements--for foreign trade enterprises, and they strongly suggest that the same relationship be established in domestic wholesale and retail trade. For retail trade in consumer goods and services, the Law also foresees that trade enterprises enter into Self-Management Agreements on affairs "of common concern" with organizations representing the consumers.

(iv) Communities of Interest

1.40 Another unique institution is the "Community of Interest". It comprises organizations which supply certain goods or services, and organizations which either use these goods and services or which represent the final users. Both parties form an assembly (of the Community) as the decision-making body in which they have an equal weight. Initially, Communities of Interest were established in the area of social services (health, education, science, social insurance, etc.). The new Constitution, however, broadens the scope for setting up Communities of Interest and permits their extension to every product or service, for which the market cannot be relied upon for arriving at an adequate matching of supply and demand (both quantitatively and qualitatively) and/or for arriving at prices which are appropriate for all affected parties. 2/ Outside the social services, where the Constitution makes the organization in Communities mandatory, they can be set up either by initiative of enterprises and other organizations, or the creation of a Community can be made mandatory to certain enterprises and organizations by a decision of the Assembly of a Socio-Political Community if it sees a need for such action in view of the interest of society. Public statements and recent organizational moves suggest that Communities of Interest will have an increasing role in the organization of economic affairs, particularly for certain "basic" goods and services, such as electric power, water supply, railways, highways.

1.41 A Community of Interest, once established by Self-Management Agreement, is an independent legal entity, with clearly defined rights and obligations for all parties and for the community as a whole. In social activities, and to a large degree in economic activities as well, the community is responsible for management of not only volume and features of supply and demand, but also for all financial transactions, including mobilization and allocation of investment resources. These financial transactions can take various forms: current expenditures of the suppliers can be covered by "contributions" (quasi-taxes) from the consumers individually or as an organized group, (e.g. from

1/ See paragraph 1.30.

2/ See Constitution, Article 16.

net income of enterprises) or in the form of transfer prices (or fees, according to specific goods and services delivered), or some combination of both. 1/ Investment resources can similarly be collected in the form of contributions, or as a part of transfer prices, and they can also be mobilized as compulsory grants or credits from the consumers, or through credits contracted from banks.

1.42 Communities of Interest substitute, in effect, both the market (as a regulating mechanism, both short- and long-term) and the state (as regulating and administering agencies) by direct association of the organized groups of the affected parties, forcing them to search for a direct mutual consensus with little recourse to outside arbitration or resolution of conflicts by political interference. In addition, Communities of Interest are directly linked into the broader decision-making process. Whenever legislative or policy matters are discussed and decided by the assemblies of the Socio-Political Communities, the assemblies of the Communities of Interest engaged in the respective field become parties in the political decision-making process on an equal basis.

(v) Associations and Economic Chambers

1.43 All enterprises are mandatory members of the "Association" 2/ of a particular industry 3/ organized at the Republic and/or the Federal level. The Associations, in turn, jointly form the Economic Chambers (comprising all economic activities), again at the Republic and/or Federal level. Both institutions perform important functions. They serve, first, as a forum where enterprises can formulate common views on matters of economic policy, and as a body which carries out the dialogue with the administration, and with the assemblies of the Socio-Political Communities. Second, the Associations and Economic Chambers can establish agreement among their members on rules of conduct on special issues which are subsequently codified in Self-Management Agreements. Third, they provide the sounding board for their members for harmonization of their individual plans; the Associations primarily for horizontal harmonization within an activity, the Economic Chambers (either as a whole or

1/ Since the Community of Interest rests on the premise that within this specific sphere market relations cannot reflect social values of the respective goods and services, the transactions within the community are frequently referred to as "free exchange of labor".

2/ "Association" as used in this specific context (as an institution) is unrelated to "association of labor and resources" as discussed in paragraph 1.30 above in connection with formation and functioning of enterprises, Reproduction Entities, and integration.

3/ The scope of particular Associations may vary. Either it refers to one particular activity, or it extends over several closely linked activities. In the latter case the scope of an Association approximates that of a Reproduction Entity.

member Associations) primarily for harmonization between various stages of production. 1/ Fourth, Economic Chambers are parties to, and cosigners of, Social Compacts on major policy matters; in this role they establish the link between their members and the Socio-Political Communities on many policy matters. Associations and Economic Chambers, thus, perform a number of functions which are not conducive to individual direct agreement among the affected parties (such as harmonization of total delivery requirements between subsequent stages of production), or to agreements within or among groups of parties (such as on principles for establishing levels of workers' incomes) which in most other countries fall into the domain of the State. Although Chambers appear to be para-statal organs because of their functions and the mandatory membership, they are part of the self-management superstructure of the economy: The State is neither a member nor involved in any other way in the proceedings. The Chambers cannot arrive autonomously at majority decisions which--by whatever mechanisms --are subsequently binding to dissenting members.

(vi) Banks 2/

1.44 The new Constitution and the subsequent legislation also drastically changed the position of banks. 3/ After the economic reforms of 1965, banks assumed increasing control over the process of allocation of investable resources. Banks were formally governed by their "founders"--enterprises and Socio-Political Communities who supplied risk-bearing permanent deposits to the bank in exchange for voting rights in the bank's supervisory organs--but actual decisions on the bank's operations shifted to a considerable degree to the management of banks. The basis for the growing autonomy of banks was what is frequently referred to in Yugoslavia as "anonymous financial capital", i.e. fungible financial resources which were exclusively controlled by and ultimately rationed through banks 4/. The lack of prior consensus among the founders (reflecting the virtual absence of a plan as a consolidated guide to operations), non-equilibrium interest rates, and the control of bank management

1/ See paragraph 1.70.

2/ In this context "banks" are equivalent to what was in the previous banking law designated as "business banks", i.e. universal banks with a wide range of functions including holding sight and time deposits from private households and social sector organizations, extending short- and long-term credits to citizens and social sector organizations, and providing guarantees for domestic and foreign trade and credit arrangements. In the new Law on Banking, most of these functions will be vested with the "basic banks."

3/ See paragraph 1.54.

4/ These fungible resources originated partially from the remnants of state capital which were administered by banks, partially from the founders' resources and private savings, and partially from the expansion of money supply.

over the information system gave it growing discretionary influence over the use of fungible resources, access to which was usually decisive for financing of investment.

1.45 While it is unclear whether this has improved or impeded the overall allocative efficiency of the system, the political implications were considered as unacceptable for a self-management system, because the decision over the use of the "surplus product" did not rest any longer with its producers--the workers of the producing enterprise--but with autonomous management of the banks which collected the surplus product. This critical position is summarized succinctly in the "justification" issued as introduction to the draft Law on Banking, February 1976: "The banks have emerged as organizations which autonomously form and distribute credit resources independently from organizations of associated labor...This position of the banks led to the alienation of the banking and credit sphere from associated labor". 1/ The thrust of the changes is expressed in a programmatic fashion by the same source as: "The primary task of all banking organizations is to make possible the association of labor and resources, as well as the use of associated resources for the purposes designated by the member organizations of a given banking organization in their self-management agreements and plans, as well as in Social Compacts and plans.... In this manner, a banking organization will cease to be an independent banking entity, which concentrates and distributes resources independently from organizations of associated labor, instead, it will become a financial association of its members." 2/ To put it differently, the abolition of "anonymous financial capital" and the neutralization of the accompanying position of power of the "technocratic" forces controlling it--both considered corrosive to viable socialist self-management--is one of the major purposes of the change.

1.46 Banks, thus, are now in effect communities of their respective members 3/ for pooling and exchanging financial resources which they generate. The members have, within the Self-Management Agreements and Social Compacts of which they are parties, to find a consensus among themselves on the use of the available resources, and on the terms and conditions governing both their collection and use. The banks as organizations become service institutions to the members, and their staff and management (with the status of a Working Community, not that of an enterprise like the members) carry out the directions of the members. The gradual reduction of fungible resources and their replacement by prior direct earmarking by the members is central to this shift in decision-making power in the financial sphere. This realignment of control in favor of

1/ Underlining added.

2/ The changes of the banking system are discussed in greater detail in Part III, Chapter II.

3/ It is important to note that in line with the de-etatization, Socio-Political Communities cannot be members of banks any longer. The state, thus, loses any direct voice in the banks' organs and their decision.

the members is accompanied by an increased responsibility of members. Under the new legislation the permanent deposits are abolished, and the community of members (both depositors and borrowers) who sign a Self-Management Agreement on association in the bank, share profits 1/ and losses of the banking operation and are liable with the totality of their assets.

1.47 The operational characteristics of the new system of banking, and the practical differences against the previous system have not yet clearly emerged. It seems, however, that one particular feature will be the tighter control over total available resources. The members will oblige to a considerable degree the use of available resources through the obligations which they have assumed independently in Social Compacts and Self-Management Agreements. This is likely to tie a large portion of total available resources in advance for the Five-Year Plan period to specific activities and projects. The remainder will be decided within the annual plan of the bank which consolidates the capital transactions of the annual financial plans of the members. The banks, thus, will become an integral part of the planning process.

(vii) The Private Sector

1.48 Self-management in the strict sense presupposes social ownership of the means of production. The Constitution guarantees the continued existence of a Private Sector within specified limits (10 hectares of arable land in agriculture, five salaried workers in any other area of activity). In order to relax the constraints which these size limits impose on economic viability of private enterprise, and in order to reconcile private ownership with the principles of self-management, the Constitution and the Law on Associated Labor foresee the introduction of several new institutional and legal arrangements. First, private farmers and craftsmen may now form Cooperatives, in which private ownership rights are maintained (including a claim to a part of the generated income accruing to private ownership, and the right to recall the contributed assets upon leaving the Cooperative, or to receive a compensation if physical return is impossible or detrimental to the remaining cooperants), whereas the working relationship among the cooperants is analogous to that among workers within a BOAL. Second, private owners, either individually or as a Cooperative, may enter into a long-term association agreement with a social sector enterprise, which would entitle them to full participation in the self-management of the organization with which they associate. Third, the Contractual Organization of Associated Labor has been devised as an entirely new legal concept.

1/ Such income from banking operations for distribution would be accidental and not a purpose. Since banks--as "Non-Productive" activities--do not produce "value", they are not generating any "surplus value" (profit) either and, consequently are geared in their own financial planning to covering their operational expenses plus buildup of some statutory reserves.

1.49 In the Contractual Organization individual working people pool their financial resources with each other, and/or with socially-owned resources. 1/ The Contractual Organization may employ salaried workers without specific limit. Owners and workers jointly conclude, in collaboration with the Trade Unions and the Economic Chamber, a Self-Management Agreement on the foundation of the Contractual Organization which specifies the rights and obligations of all parties. In principle, the net income of the organization is distributed in two stages and analogously to the principles of sharing of income and risk from pooled resources in the association of BOALs in enterprises or of enterprises among each other. 2/ All working people and workers receive a personal income corresponding to the income in comparable social sector organizations. The remainder then is distributed in accordance with the shares in ownership. The income from private ownership is accounted against the initial individual participation, and once the initial participation is repaid, the right to further income from ownership ceases. However, the individual owners have the right to conclude a Self-Management Agreement on reinvestment of their income.

1.50 It appears evident from these inventive concepts that, within a clearly defined framework, a viable and dynamic mixed sector is expected to emerge which did not previously exist. It would draw the most active segment of the existing traditional private sector and new entrants (notably returning migrant workers) on a strictly voluntary basis into cooperative arrangements among the members, and between these organizations and the social sector, filling a major gap in the economic structure. Expectations are high in Yugoslavia that this new evolution would in the agricultural sector reverse the trend of abandonment of fertile land by marginal peasant farms and increase the overall productivity of the private sector. In the non-agricultural sector, the new institutional forms would create the opportunities and the incentives to create a viable small-scale industry sector which would serve two purposes. First, it would contribute measurably to employment creation at moderate investment cost (and largely financed from private resources). Second, it would improve the supply of essential goods and services which cannot be economically supplied by the existing large industry in the social sector, and the lack of which impedes the overall economic efficiency of the country. 3/

1/ The Law implies clearly that the owners have to be fully active within the same organization in order to qualify as co-owners in a contractual organization; private equity holding by outsiders for profit purposes, thus is clearly excluded. See Law on Associated Labor, Articles 303-319.

2/ See paragraphs 1.30 and 1.31.

3/ Yugoslav studies on this subject stress the symbiotic relationship between small- and large-scale industry, and the coexistence of both in developed countries.

B. Market and Planning in the Yugoslav System

The Role of the Market

1.51 After the economic reforms in the mid-1960s, the Yugoslav economic system leaned increasingly towards adopting the market as the general and most efficient system for regulating short- and long-run resource allocation. The market was in the prevailing Yugoslav view conceptually never completely identical with the market as perceived by neoclassical economic theory although there was a converging trend. These differences pertain to the markets for "labor", and "capital", as well as to the market for "goods and services". The following paragraphs present the Yugoslav perception of the role of the market for "labor" and "capital" resources as well as for "goods and services". Notwithstanding conceptual differences from neo-classical premises, market forces are still foreseen to operate, albeit in a more "rationalized" manner.

1.52 The concept of a "labor market"--for labor as a "factor of production" with "wages" as its "price" according to its "marginal product"--was for principal philosophic reasons never acceptable. According to Marxist economic theory this concept would--by leaving the determination of quantity and price of employed labor to the market mechanism--equate man with any "commodity" and would make man into the object of economic rationality, subjugated to "capital relations", whereas labor is perceived as the sole source of "value". Consequently, the concept of "wage labor" (work against a contractual remuneration, determined whatever way and by whatever institution or mechanism) as an element of "cost" of production was abolished. Instead, workers receive a part of the residual "enterprise income"; in accordance with criteria and within limits determined by society 1/--in the mid-1970s codified in Social Compacts and Self-Management Agreements--the workers determine the portion they distribute to themselves as "personal income." The effects of this arrangement on the "objective function" of the Yugoslav enterprise have given rise to a considerable body of literature on the micro-economic theory of the Yugoslav enterprise, with controversial conclusions. 2/ However, it is worth noting that some features of a "labor market" do in fact exist. Workers' remuneration are observed to differ by skill, region, sector and even by enterprise within the same sector. Underlying the various agreements on income distribution--which govern allocation to personal incomes and earnings differentiation--are thus by necessity also supply and demand considerations.

1/ The right of society to participate in determining criteria and limits has three foundations. First, in any given period workers use resources ("past labor") provided by society as a whole. Second, the results of work are affected by conditions beyond control of the workers for which they should neither be rewarded nor penalized. Third, the socialist principle of "solidarity" requires maintenance of the maximum degree of equity comparable with incentives to efficiency.

2/ The absence of a non-controversial and generally accepted micro-economic theory of the self-managed firm makes difficult the formulation of effective policies aimed at affecting enterprise behavior.

1.53 The concept of a separate "capital market"--fungible liquid resources set aside voluntarily by organizations or individuals for future income generation and deposited with autonomous intermediaries who allocate the collected resources to other organizations and individuals, with interest rates as equilibrium "prices" clearing the market--was during the 1960s neither expressly accepted nor refuted. In resource allocation, as carried out by banks and large diversified enterprises, however, features of such a capital market were to some degree approximated. During the mid-1970s, this practice is refuted on philosophical grounds. The "Platform for the Preparation of Positions and Decisions" of the Xth Congress of the LCY sets out the present position: "The request for a capital market is more realistic (than that for a labor market), that is, it is not altogether impossible since leftovers of the capitalist mode of production are still to be found; but it is nevertheless, unfeasible..." since "such a market consolidates the alienation of surplus labor". 1/ Resolution I of the Xth Congress accordingly rejects the "alienation of a large part of the resources for social reproduction from the direct producers", the "tendency for the economic and financial power of estranged managerial, technocratic and bureaucratic centers to strengthen", the "maintaining and expanding capital-based relations", the "behavior deriving from petty-proprietorship mentality, group ownership and technocracy", the "tendencies to 'privatize' socially-owned property"; and the "bureaucratic-statist alienation of the conditions, means and results of labor from the workers". 2/ The same position is expressed in numerous other documents and public statements. 3/

1.54 Underlying this position is the Marxist theoretical premise that capital is not a separate "factor of production" but "past labor", that only the workers on their place of work create (using "past labor") "value" and that--as a consequence and if self-management is to have any real meaning--the workers should have exclusive control over it, including the determination of "surplus value" (i.e. the undistributed part of enterprise income) and the explicit, conscious choice of its ultimate use. Any infringement of this control and choice--be it by enterprise management or by autonomous banks (as the "technocratic" forces), or by the state (as the "bureaucratic-statist" forces) constitutes "alienation" and, simultaneously, transfers financial, and ultimately political power 4/ to those who assume the decision-making power over the alienated surplus value. For the very same reasons the decision-making power of the producers of surplus value has to be direct and conscious

1/ Quoted from Miladin Korac "Commodity Production in Socialism--Dilemmas and Development", Socialist Thought and Practice, Belgrade, Volume XVI, No. 9, page 21, September 1976.

2/ Op cit. page 20.

3/ These unambiguous programmatic statements probably point to the persistence of some uneasy compromises between the principles of the system and its actual mode of functioning which still need to be resolved.

4/ In Marxist thought economic power is inseparable from political power.

(explicit and specific), and cannot be left to any impersonal market mechanism. In order that direct power of the process of resource mobilization and allocation can function in accordance with self-management, it has to be vested with the individual BOALs. Any broader decisions (within or among enterprises, with or without the involvement of banks) have, accordingly, to be based on Self-Management Agreements between BOALs and/or Social Compacts. This political choice for a constituent feature of the system of economic and social management determines, as a corollary, the redefined position of banks, discussed above. 1/

1.55 It is worth stressing in this context that the principle of direct decision making does not lead, in the Yugoslav thinking, to either a total fragmentation of the process of resource mobilization and allocation, or to a restriction to self-financing as the only acceptable form of management of financial resources. The need for financial intermediation is acknowledged without reservation. The present position only sets the ground rules by which intermediation is to take place, with "pooling of labor and resources"--be it in the form of traditional credit relations with or without inclusion of a bank or be it in the form of joint venture pooling 2/--through Self-Management Agreements as the preferred arrangement. It is also worth noting that the continued existence of traditional credit relations implies the acceptance of interest rates as one of the permanent features of the system. While apparently refuting the notion of an equilibrium interest rate as the mechanism regulating resource mobilization and rationing, the emphasis on direct decision making between lending and borrowing enterprises as well as the right of members of banks to determine the borrowing and lending terms in Self-Management Agreements may result in interest rates which are more consistent with financial resources availability or scarcity. The new institutional set up which encourages inter-enterprises investments based on income and risk sharing can, if widely practised also lead to de facto market for investable resources.

1.56 With respect to goods and services, four different types of supply-demand relationships can be distinguished, with borderlines between them which may be subject to change or, in a number of instances, without clear borderlines. First, for goods and services for which society (the Socio-Political Communities or the directly affected enterprises) decide that a Community of Interest is to be established, 3/ a "market" does not exist by definition.

1/ See paragraph 1.44.

2/ See paragraph 1.31.

3/ See paragraph 1.40.

Consequently, the concept of "price" does not exist either and all transactions are categorized as "free exchange of labor", leaving it to suppliers and users to determine, directly and jointly, supply and demand and all necessary financial arrangements to cover costs and investment expenditures in whatever way they choose. These goods and services are however generally those where market forces cannot be expected to operate, or if they did, they would do so ineffectively thus such committees of interest are most notable in the provision of social services or public goods.

1.57 Second, for a large variety of goods and services the transactions are regulated by Self-Management Agreement, either on deliveries among BOALs (within enterprises) or among enterprises (generally within Reproduction Entities). In the Yugoslav terminology they constitute market transactions since an exchange of commodity against payment does take place. However, in these transactions both parties are bound to a specific supplier/customer link and to specified prices or criteria for price formation, for a period as determined in the medium- or long-term Self-Management Agreements. Furthermore, the parties can choose any basis for determining the prices charged to each other ("transfer prices") on which they are able to agree. It is expected that normally such interlinked enterprises would not "buy" from (or "sell" to) each other but would determine the transfer prices by a sharing of income formula. 1/ But transfer prices can also reflect cost plus considerations or pooling of resources (either transfer of income to units where it is needed, or in return for received funds), and they may incorporate income risk equalization (or windfall profit and loss sharing) considerations; there may be other motives, as well, and any combination is conceivable. Prices, thus, may deviate by substantial margins and for any period of time from "equilibrium prices". Given the "captive market" relationship between the parties and the multi-faceted determination of prices, the linkages between the parties intentionally exclude one element which is considered integral to a "perfect market" in the neoclassical sense: day-to-day competition with free choice of a multitude of suppliers and purchasers. However, in the Yugoslav view this restriction is strictly short run: if BOALs or enterprises are convinced that the restrictive market relation is at their long-run disadvantage, they are under no obligation to renew the Self-Management Agreements after their dates of expiration, but can either renegotiate or dissolve them. Furthermore, the

1/ Compare paragraph 1.30. It seems that the determination of the "appropriate" contribution of each BOAL or enterprise to the total jointly earned income (translating into transfer prices according to performed work) is still not completely resolved. While Articles 139 and 140 of the Law on Associated Labor set out broadly some principles and indicators to be applied, more clearcut procedures would probably be set out in the Law on Prices, expected to be passed in the first half of 1978. It is worth noting that the issue of determining transfer prices through Self-Management Agreements coincides in the Yugoslav context with the issue of "primary distribution of income" (see paragraph 2.29, Part III, Chapter II).

openness of the country to international trade creates a high degree of information on international prices and tends to induce enterprises to resist any massive permanent deviations of transfer prices from international prices. Furthermore, the atomization of enterprises into small autonomous units (BOALs) combined with the increased financial accountability of these units serves to strengthen market forces. Thus, with some degree of simplification one could probably conclude that such internalized markets established by Self-Management Agreement are an attempt to establish an ex ante market equilibrium which includes, beyond price/delivery relations, other relations as well.

1.58 Third, there are and will remain in future a variety of goods and services (frequently referred to as "basic" or "strategic") for which delivery relationships are free but prices are controlled (by Social Compact or administrative decision, if supported by and within the competence of Socio-Political Communities). However, the previous practice on price-controlled goods and services is now radically changed. While in the past the suppliers of these goods and services had to absorb the burden of controlled prices (if they were pegged at a "too low" level, by whatever standard which reportedly was the prevailing case), the Constitution prescribes that in all such cases the supplier has now a legal claim to "compensation", to be provided by the Socio-Political Community which decided to determine the unsatisfactory price level. The "subsidy" of artificially low prices, thus, is shifted from the suppliers of the subsidized goods and services to the Socio-Political Communities. An example of such an arrangement is the subsidy scheme for railways which suffer from tariff rates insufficient to cover their operating cost. The Socio-Political Communities are, thus, forced to levy extra budgetary revenues or to cut other budgetary expenditures. Since the room for maneuvering is very narrow on either side, due to the nature of the fiscal system, 1/ this arrangement provides for strong disincentives to assume such subsidy obligations in other than exceptional cases.

1.59 Fourth, for a variety of goods and services, the market is fully competitive and prices are freely determined. Much of the recent discussion denouncing the "blind forces" or the "anarchy" of the market referred to this market segment, and to the question of its appropriate share in total transactions. In the recent system discussions many economic distortions (like rampant inflation, excess capacity in some activities and under-investment in others) were traced back to over-confidence in the self-regulating forces of the market and to the belief in the coincidence of the effects of the "invisible hand" with the common or social interest. Further, the efficiency of the system which rests on isolated ex ante expectations being rewarded or penalized ex post for success or failure was increasingly being suspected as leading to gross waste, misallocation of resources and "structural imbalances". 2/ This critical view of the economic efficiency of the market mechanism is based on two strands of argument: (a) in a medium-sized,

1/ Compare Part III, Chapter I.

2/ See Part III, Chapter III.

semi-industrialized country, which has adopted certain socialist premises, the market cannot be made sufficiently "perfect" to accomplish the efficiency ascribed to it by neoclassical economic theory which presupposes a different set of political, social and economic conditions, and (b) according to Marxist economic thinking, a laissez-faire market mechanism has built-in destabilizing forces which prevent efficient and stable equilibrium solutions under any circumstances. In addition to these efficiency-centered doubts, the utilitarian notion of each enterprise (and ultimately each individual decision maker, i.e. worker) striving individually for maximum income is perceived as being philosophically irreconcilable with the principles of "reciprocity and solidarity" considered as integral to viable self-management socialism. The present position seems to be that the other three forms of organizing the relations between suppliers and consumers are in principle preferable and should be promoted to the maximum degree possible, but that for a sizeable sector of goods and services (in particular non-essential consumer goods) they would be too cumbersome to introduce and to administer.

1.60 In sum, in the prevailing Yugoslav thinking the market is not perceived as a neutral mechanism nor as an institution geared at automatically leading to stable equilibrium, let alone to a welfare optimum. The social and political premises or implications of this position are expressly faced, and a balance is being sought between the efficiency aspect and the aspect of ordering the social relations in accordance with socio-political principles. In practical terms, however, the concept of the "market" will continue to play an important role in the Yugoslav system, though, less for factors of production than for final demand. For the latter, the market is accepted as the means which provides the signals for the long-term structural shifts of demand and their translation into investment decisions. Such signals are accepted as a major input into planning.

Planning 1/

1.61 During the 1950s and into the 1960s planning--equated with administrative central decision making and management--gradually lost most of its practical relevance. Particularly after 1965, Yugoslavia had de facto switched to some form of "indicative planning" which was indicative for enterprises and mandatory for Socio-Political Communities. Plans were prepared by government agencies with little input from below. Since Plans simultaneously lost most of their obligatory substance as well, the sense of commitment of the autonomous decision makers to Plan provisions eroded. Enterprises and banks largely acted with little regard for the Plan, and the government

1/ This chapter refers to medium-term planning in a five-year cycle; the present period is running from 1976 to 1980. In addition, enterprises and Socio-Political Communities prepare annual plans setting out the details for implementing the Five-Year Plans. Furthermore, work on long-term plans (as to the year 2000) is in progress. Planning is described and analyzed in greater detail in Part III, Chapters III and VII.

resorted to ad hoc intervention. The basic dilemma was that planning as a function was still in the domain of the State, in stark contrast to the anti-etatist direction of the evolution of the system. A new attitude to planning, in fact a revival of confidence in the need for planning, emerged gradually in the 1970s. This was partially in response to the emerging "structural imbalances" 1/ that was reviving the conviction that an ex post coordination through the market mechanism is inherently wasteful and that only a high degree of ex ante coordination--planning--can assure rational use of scarce resources and redress the imbalances. The new positive attitude to planning was also the result of the emerging conviction that planning and self-management are not in conflict but can be reconciled. In fact, the view is now generally held that self-management has--in order to avoid chaos--to be complemented by effective planning, and that planning approaches consistent with self-management starting at the level of the BOALs to the Republics and the Federation can be developed. Equally important has been the need to reconcile the choice of planning system with the political realities of Yugoslavia. More specifically the pluralistic nature of Yugoslavia itself has been a major factor in determining the type of planning that could be acceptable.

1.62 Between 1947 and 1975 Yugoslavia adopted four new Constitutions (1946, 1953, 1963, and 1974) each foreshadowing a new system of planning. By 1975 there had been five medium-term plans, encompassing three broad planning philosophies, namely, central planning (1947-52), planning by global balances (1956-61) and for want of a better title, "indicative" planning (1961-75). The new Constitution of 1974 foresaw the introduction of a yet new system of planning namely, self-management planning.

(i) Historical Overview

1.63 Yugoslavia's first experience in planning was with an extreme form of central planning based closely on the Soviet model. The Law on Planning was passed in 1946 with the Five-Year Plan period starting in 1947. All decisions were to emanate from the Federal Planning Commission with little discretion or feedback from production units. 2/ In B. Kidric's words enterprises

1/ See paragraphs 3.20-3.29, Part III, Chapter III.

2/ Article 15 of the 1946 Constitution sets the scene, "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."

"had virtually nothing to plan, everything being planned from above. The enterprise collaborated, it is true, in the elaboration of operational plans that these plans depended directly on the basic plan which were dictated from above and in great detail, by the state apparatus, that is to say by the bureaucrats." 1/

At the peak, the annual plan weighed some 3,300 lbs., included provisions for ten-day plans and directly controlled production of some 13,000 commodities. The basic objectives of the Plan were to overcome the general economic and technical backwardness of the economy with consumption growth having a low priority. The usefulness of central planning, given Yugoslavia's low level of development, may not have spent itself completely when in 1950, subsequent to the break with COMINFORM, it was decided to abandon the Soviet model of central planning and to initiate a search for a new system of economic management that would be uniquely Yugoslav. 2/

1.64 Between the abandoning of central planning and the adoption of a new system in 1956, the economy was managed on an ad hoc basis through a system of annual plans. 3/ The main objective during the period was to finish projects already started during the last Plan period. The "Law on the Planned Management of the Economy" (1951) foreshadowed the adoption of the new planning system. The State Social Planning Commission was transformed into a Federal Planning Bureau and "State planning" into "social planning", involving increased consultation and participation. Central planning was now to be planning of basic proportions, (sometimes referred to as planning through "global balances"), notably the rate of accumulation, the distribution of investment resources through the Federal Investment Fund, and collective consumption. These were then used by the Planning Bureau to forecast sectoral growth rates. Such "fundamental" planning was the responsibility of the State organs; enterprises on the other hand would have "operative" plans based on these basic proportions and market signals. To facilitate the use of the market, steps were taken towards creating a unified price structure and adopting a more realistic exchange rate. The new planning system coincided

1/ See Singleton, "Twentieth-Century Yugoslavia" p. 112.

2/ The drought and failure of the collectivization of agriculture may have also contributed to the decision. However in strictly economic grounds the Plan cannot be judged to have been a failure (or a success for that matter). See D. Milenkovic, "Plan and Market in Yugoslav Economic Thought", pp. 62-77, and Singleton, op cit.

3/ "A complex of different annual political and economic instruments for the current regulation of a free, but imperfect market," see Ekonomist 1958, quoted in D. Milenkovic, p. 122.

with increased emphasis on growth of consumption. The Plan (1957-61) proved to be an enormous success with all objectives being fulfilled within four years.

1.65 The seeds of the success of the second Five-Year Plan brought with it a drive for further changes in the system of economic management. Having earlier rejected any dichotomy between Plan and market, the question now became one of determining their respective roles. In 1961 three new reforms were instigated, considerably increasing the role of the market. The reforms were, however, ill-prepared and poorly implemented leading to ad hoc policy measures to control the economy. The medium-term Plan had to be abandoned in 1963 though annual planning continued. The increasing economic difficulties of the period induced a national debate on whether solution lay in the further "liberalization" of the economy or a retrogression to greater central control. A Seven-Year Plan (1964-70) was prepared but again had to be abandoned in the face of the major economic reforms of 1965 further "liberalizing" the system. Thus, between 1961 and 1965 there was no effective medium-term Plan; the system changes and their repercussion on the economy and the resultant increased need for short-term economic management precluded any attempt at medium-term planning. The key innovation of the period which was to effect the future of planning was the abandoning of the Federal Investment Fund between 1963 and 1965. This partly reflected an economic decision to try and encourage a more rational allocation of investment resources. But to a large extent this may have been a reflection of the increasing difficulty of achieving a consensus on the sectoral distribution of investable funds and on national objectives in general. 1/ Furthermore, the system of investment planning was difficult to reconcile with growing emphasis on workers' self-management and the use of the market. Additional instruments were needed to persuade enterprises to behave in the desired direction. Such instruments would have differing effects on enterprises and regions, limiting their discretionary powers.

1.66 After the reforms of 1965, planning in Yugoslavia became for all intents and purposes indicative in nature. Its new role was to provide a forecast, to provide a basis for rational decision making by enterprises, and to finally determine a set of objectives to be pursued by the government through non-administrative instruments. Once accepted, the Social Plan became a directive for the Socio-Political Communities, this being the only compulsory aspect of the Plan.

1.67 The basic premise of the new system of planning was that enterprises through maximizing their own income would further the general interest. What was required was that an appropriate environment be provided for individual producers, with appropriate signals and measures to ensure macro-economic stability. With the exception of the Federal Fund for the Less Developed Republics, investment decision making was passed on to the market through the establishment of self-managed all purpose banks. This new system of economic management,

1/ See, for example, D. Milenkovic op cit.

however did not live up to the Yugoslav expectations. The economy exhibited considerable cyclical behavior, with periodic balance of payments difficulties and stop-go policies and growing inflationary pressures. At the same time, structural imbalances manifested themselves. Although it is difficult to speculate on the causes of their developments, an important factor seems to have been the combination of an imperfect market with inadequate instruments of economic policy to facilitate a smooth management of the economy.

(ii) Concepts and Procedures of Social and Self-Management Planning

1.68 The new system of planning foreseen in the Constitution and codified in a new Law on Planning (1976), is radically different from any of its predecessors. The process of Plan preparation and ultimately the determination of the objectives of the Plan, as well as the instruments of economic policy envisaged for their fulfilment are quite new. First, unlike the previous system based on Plans prepared by the Planning Institutes, the new system envisages complete and active participation of all decision makers. Second, whereas the previous Plan was largely indicative, imposing legal obligation only on the Socio-Political Communities, Self-Management Planning involves binding legal obligations on all decision makers. The new system is a response to the failure of purely indicative planning. It was generally felt that an economy at Yugoslavia's level of development still required some form of long-term macro-economic strategy with some form of ex ante coordination, as ex post coordination through the market mechanism was felt to be inherently wasteful. Indicative planning and the use of the market could have provided for such a strategy if the instruments of economic policy at the disposal of the State were sufficiently strong and precise to do so. Yet one of the principal effects of the evolution of self-management was the weakening of the conventional instruments of economic policy available to the State. Consequently, with the scope of available instruments considerably reduced, the economy faced the dilemma of too few instruments to deal with too many objectives. The new system, although seen as a logical extension of the self-management system, provides a genuine attempt to develop a system of planning based on sound economic principles. Furthermore, the mechanism for determining the objectives of the Plan provides an interesting attempt to reconcile the pluralistic nature of the Yugoslav society with the need to have a unified and coordinated approach towards development.

1.69 The basic principles of the new system are outlined in the new Law on Planning. 1/ Although the Law provides a detailed description of the procedures at the various levels of planning, (e.g. enterprise and Socio-Political Communities), it does not give an indication of the hierarchy of planning.

1/ Law on the Underlying Premises of the System of Social Planning and the Social Plan of Yugoslavia, 1976.

This, however, may in fact be deliberate as the planning process is seen as one of simultaneity with no discernable hierarchy.

1.70 The basic characteristics of the new planning system can be summarized as follows:

- (a) The planning process must involve all "planning agents", i.e. organizations that are affected by the decisions to be made.
- (b) Planning is to be carried out simultaneously by all planning agents at all levels. Planning is thus conducted at the level of the BOALs and continues up all the way to the Socio-Political Communities at the Federal level. Planning at the micro level i.e. within and between enterprises is referred to as "Self-Management Planning" while "social planning" refers to planning carried out at the macro level within and between Socio-Political Communities.
- (c) The planning process is a continual one, with annual assessments of the progress of the plans of respective planning agents and revision to plans as these become necessary with changed circumstances. The cycle for the preparation of the next medium-term Plan 1981-85 will start in 1978.
- (d) There is an obligatory exchange of information by all planning agents on their respective plans and current economic situation, based on a predetermined list of indicators. 1/
- (e) Individual plans at all levels must go through a process of "harmonization", where all affected parties seek to reach an agreement on the proposed plans. Fully harmonized plans, i.e. where agreement is reached among parties are then codified in legally binding agreements. These are Social Compacts, and on an operational level, Self-Management Agreements. These not only stipulate firm and specific obligations but also penalties for failure to fulfill obligations. The financial dimensions of the Plans are also codified in Social Compacts and Self-Management Agreements. All affected parties must be consulted and their agreement secured prior to the conclusion of a Self-Management Agreement or Social Compact.
- (f) Economic activities are divided into two groups. The priority activities are those that have been singled

1/ The Federal Planning Institute has published a handbook on Self-Management Planning in which a list of possible indicators by type of economic unit are summarized.

out for their special importance in the development of the economy. 1/ In the current Plan period these priority activities were agreed upon, in the early stages of the planning exercise and subsequently codified in Social Compacts. Although planning procedures are identical for both types of activities with all individual plans passing through a process of harmonization, agreement on individual plans are legally required only for priority activities, though encouraged also for non-priority activities. The Economic Chambers act as a forum for securing agreements on the adoption of plans and their implementation. Trade Unions participate in planning of income distribution.

- (g) The planning agents are bound by law or decree to a firm timetable for the planning process. In cases of default or unresolvable conflict the assemblies of Socio-Political Communities or government bodies can issue a temporary ruling.
- (h) The basic Plan is the medium-term Five-Year Plan. There is in addition a Long-term Plan reviewing long-term objectives and structural change.

1.71 The planning process starts with the passage of a law on the preparation of the Plan. This document is equivalent to a Social Compact at the Federal level outlining the work program for the preparation of the Plan. The document will not only specify the Plan period and the timetable for major steps of the planning process but will also provide a list of minimum indicators that must be prepared and a common methodology that must be adhered to by all units engaged in the planning process. Planning commences simultaneously at all levels, by, within, and between enterprises, 2/ and "social planning" and Socio-Political Communities. 3/ The planning process is aimed at harmonizing the plans compiled at different levels of aggregation into one composite medium-term Plan or vision of the development of the economy. Thus, although the two forms of planning are initially carried out independently, the purpose of the planning exercise is to fuse them into one consistent masterplan of action.

1/ Officially designated as "Activities of Special Significance for Realization of the Agreed Policy Concerning the Overall Development of the Socialist Federal Republic of Yugoslavia".

2/ The same as mentioned below for enterprises applies for Communities of Interest.

3/ The subsequent sketch refers to the Federation and Republics. Little is known of social planning as carried out by communes, but it appears that the basic features are identical.

1.72 Although no common and rigorous methodology of "self-management planning" has emerged as yet, certain features can clearly be established. First, each BOAL or enterprise takes stock of its development during the expiring Plan period, the successes and failures experienced and their causes, and determines its starting position. Second, each BOAL or enterprise sets out its assumptions, expectations and ambitions as to prospective level and composition of output, corresponding input requirements, and available and required human and financial resources. Third, BOALs and enterprises exchange these initial projections with others--both forward and backward linked as well as competing units--and enter into the process of harmonization of assumptions, expectations and ambitions. These encounters can occur within ad hoc working groups, but are also carried out in a more formal way within and between the respective Associations or within the Economic Chambers at large. Fourth, after a number of rounds of encounters, in the course of which assumptions, expectations and ambitions are gradually adjusted between enterprises, and with certain macro-economic parameters established through the parallel process of "social planning" the BOALs and enterprises codify their common understanding in Self-Management Agreements. Fifth, the final plans drafted by enterprises and BOALs, are adopted by the community of workers in each BOAL.

1.73 Similarly as for self-management planning, certain features can be clearly established for "social planning". First, the Planning Institutes review and evaluate major aspects of development of the expiring Plan period and identify the problems which need to be faced in the subsequent period. This assessment is formally submitted to, and discussed by, the respective assemblies. Second, the Planning Institutes set out the macro-economic or aggregate assumptions on external conditions, and sketch alternative scenarios of development which appear feasible. They are formally submitted to, and discussed by, the respective assemblies, which make a choice between these scenarios. Third, the tentative social plans of Socio-Political Communities are exchanged with those of others and are in repeated rounds of encounters harmonized with each other. Fourth, the tentative social plans are extensively reviewed by Economic Chambers and Trade Unions--who represent the position of their members--and, after harmonization, are codified in Social Compacts. Fifth, the final plans are drafted by the Planning Institutes and adopted by the assemblies.

1.74 The process of harmonization is thus to ensure some sort of consistency in the individual goals and objectives of enterprises (self-management planning) and more macro, national considerations (social planning). Social planning (top-down) provides a basic framework, which is then confronted with self-management planning (bottom-up). The process is not viewed necessarily as a process of resolving conflicts but as a process whereby the same planning agents are forced to view their development objectives at differing levels of aggregation. By doing so the various enterprises are obliged to consider broader objectives, to appreciate the trade-offs involved, and the need to assume responsibility for decisions taken. To the knowledge of the Bank's mission, no specific formal procedures and analytical methods are presently engaged in the search for harmonization. Apparently the planning agents

confront each other with their proposals and propositions, employing a variety of economic, social, financial and political considerations. The consensus emerging from this probably constitutes a negotiated solution which is "feasible" in the sense that all planning agents would be willing to accept it; and may not necessarily be the "optimal" solution though this cannot be precluded (see below) in the rigorous analytical sense.

1.75 To facilitate this process which would become quite unmanageable if applied literally, and if all economic units had to be involved singularly, large "economic complexes" 1/ of enterprises are created, based on their vertical and horizontal linkages (input/output linkages). Attempts are then made to coordinate supply and demand within and between complexes. Planning is thus reduced to a system of "network planning" 2/ conducted at different levels with delegates of the parties involved participating in the various Plan formulations. Important vehicles for coordination are the Economic Chambers. Enterprises are encouraged to make proposals on the basis of the viability of projects. In cases of disagreement the parties concerned are encouraged to submit their individual project proposals to arbitration. One of the main features of the new system is the large exchange of comparable and consistently compiled information between enterprises that now becomes mandatory (based on the minimum list of indicators discussed earlier). This will help greatly to increase the transparency of the economy and make possible the application of objective criteria in decision making.

1.76 The process of harmonization is intended to lead to the conclusion of two types of legally binding agreements. On a more general level Social Compacts will be concluded affecting broad economic issues and policies. These will provide the framework for more precise operationally-oriented obligations that will be codified in Self-Management Agreements. 3/ In these Self-Management Agreements enterprises will regulate all relations within and between economic units such as medium- and long-term deliveries, transfer prices, criteria for distribution of income, and the use of investable resources. It is mandatory that within priority activities Self-Management Agreements be reached between the parties involved. Failure to reach agreement by the specified date will result in the Socio-Political Communities

1/ Sometimes identical to the Reproduction Entities (compare paragraph 1.30), sometimes comprising all enterprises at certain stages of production through their respective Associations within Economic Chambers (compare paragraph 1.43).

2/ See for example J. Meade, "The Theory of Indicative Planning", Manchester University Press.

3/ "For their participants and signatories, there are laws and even something more in terms of their social substance," Vlaskalic, "Practice Breaks Ground for Self-Management Planning," Socialist Thought and Practice, 1975. For fuller discussions, see paragraphs 1.22 to 1.26.

introducing appropriate measures until such time that a decision can be reached. 1/

1.77 The actual plans that are adopted at the Republican and ultimately at the Federal levels are to be based on the Social Compact and Self-Management Agreements reached by the various economic units. 2/ In this sense the planning system can be viewed as planning from below. However, in reality the system is best viewed as a non-hierarchical system since the initial stages of planning are conducted at all levels simultaneously.

(iii) Self-Management Planning in Practice

1.78 The new system of planning, although appearing confusing in its complexity, has potentially a number of important positive features. First, the planning process is based on a compulsory and exhaustive exchange of information between all planning agents, greatly increasing the transparency of the economy, facilitating decision making and rational choice based on an exhaustive exchange of preferences and production possibilities. The shortcomings of the market mechanism for the transmission of knowledge and information are well documented, 3/ resulting in only limited and imperfect markets for knowledge.

1.79 Second, the requirement that planning be carried out by all economic agents at all levels ensures that all interests are represented and that differing views and alternative solutions discussed and considered. This ensures comprehensibility and a reflection of the revealed preferences of all economic units. This gives much support to the Yugoslav contention that Plan fulfillment is greatly enhanced by the participative nature of the planning approach, as the legally binding programs of action are not imposed but are merely an outward reflection of consumer and producer preferences.

1.80 Third, unlike the market mechanism with uncertain progress towards an equilibrium by trial-and-error, self-management planning attempts to provide an ex ante equilibrium solution. Yet unlike central planning, it avoids the pitfalls of having to determine the vector of prices and inputs through some mathematical model based on an exogenous set of output objectives which either neglect or second-guess consumer sovereignty. The tedious process of multi-level planning with horizontal and vertical coordination between planning agents is in essence an attempt to determine an implicit vector

1/ "Thus the plans of Socio-Political Communities bring about the unity of the system of planning and decision making regarding income and possibilities to realize their common interest," Article 93, Law on Planning.

2/ Article 60 of the Law on Planning.

3/ See Appendix II.

of equilibrium prices and deliveries by exchange of information and through an iterative adjustment of individual plans for mutual consistency. The sound economic rationale of the new planning procedures, and in particular of the process of harmonization, can be illustrated through an analogy to so-called "forward markets". In many respects self-management planning procedures resemble the process of "haggling" and "negotiations" in forward-markets, as they exist for certain raw materials and foreign exchange. Social Compacts and Self-Management Agreements on mutual deliveries and on criteria for transfer prices would in these "quasi-forward markets" be analogous to contracts ("forward contracts") in forward markets. Like forward markets such quasi-forward markets establish an ex ante equilibrium which fully reflects consumer preferences (as perceived by the participants in the market) and in which the scope for differences between expectations and realized results is, at least in theory, reduced to unpredictable "forces of nature". In comparison with conventional forward markets the quasi-forward markets have two specific features: (a) they are not restricted to a handful of raw materials but cover a large share of industrial production as well, and (b) they are not short-term (usually less than one year) but medium-term (for the Five-Year Plan period, and in some activities even longer). The extension of coverage and time horizon reflects the unique purpose underlying the quasi-forward markets namely to induce a rational pattern of investment. The quasi-forward markets, in other words, aim in principle at the elimination of market "uncertainty" (expectations regarding actions and reactions of other participants) and seek to reduce "risk" (exogenous disturbances beyond the control of the participants) by means of pooling limited knowledge. The potential allocative efficiency gain in comparison to a competitive market system is evident: capacities which are needed for structural reasons are carried out in time and are approximately tailored to volume of demand, eliminate the pitfalls of both bottlenecks and excess capacity (and the associated waste of resources). Needless to say, these gains in comparison with both a market and a centrally planned economy are "potential". The degree to which they are actually and eventually realized depends entirely upon the efficiency and rationality with which the planning process is organized and carried out. By necessity a good deal and a lengthy period of "learning-by-doing" will have to be invested before the potential can be fully exploited.

1.81 Fourth, two specific features of the Yugoslav system significantly enhance the prospects of this new system to work effectively; namely, social ownership of the means of production and the concept of "solidarity and reciprocity." The operation of effective forward markets and contracting is based on many restrictive conditions that in practice will not hold. Important among these is the need for participants to express their true preferences which precludes oligopolistic behavior, and that there should be no external notably "public goods". The concept of solidarity and reciprocity precludes, at least in theory, the distribution of windfall gains or pure economic rent to any specific enterprise. Furthermore in practice the exhaustive exchange of information will, of itself, act as a restraint on oligopolistic behavior.

1.82 Finally, from a political viewpoint the new planning system also has a number of positive aspects. First, planning is now reconciled with the

basic premises of a workers' self-managed economy. In particular the role of the state organs is considerably reduced and they now act principally as an arbitrator of last resort and a forum for presenting a macro perspective of the future. The shortcomings of the instruments available for development purposes become less important since the basic premises of the development program now become codified in the contractual obligations between the enterprises. Second, the new system offers an opportunity for all interests to be represented and it provides a forum for choosing among different means to the same end, or for choosing between different ends. The legal obligation on the parties to reach agreement places responsibility with those involved, and with the state only for such time, as direct agreement cannot be reached. This process helps ease the difficult problem facing Yugoslavia particularly with respect to coordination among the various Republics. The pluralistic nature of society has always raised difficult questions for planning, which traditionally has tended to be based on a monistic view of objectives. 1/

1.83 The new system of planning does, however, also point to potential weaknesses. First, the full cycle of planning takes some two to three years, involving several extremely time-consuming iterations within and between numerous planning agents. The costs of planning--absorption of scarce managerial and administrative talent--are thus likely to be very high.

1.84 Second, the all-embracing nature of planning involves planning of production, investment, and income distribution, leaving economic units with little flexibility. Changes in the underlying premises of the plans can occur any time during the process of contracting itself as well as after the conclusion of contractual agreements. The comprehensive nature of the Social Plan would call either for considerable revisions of the underlying Social Compacts, Self-Management Agreements and enterprise plans, or conversely, specific measures to increase flexibility, e.g. stocks and phasing of investments, if the arduous task of continual recontracting is to be avoided. The success of the planning system will thus depend in part on how susceptible the economy is to unforeseeable events and the severity of these, should they occur. The openness of the Yugoslav economy and the country's dependence on trade certainly increase the probability of such unforeseeable events affecting the economy, while the large foreign exchange reserves, the country's fairly good access to external sources of capital, and the diversified nature of its trade, provide a cushion. Nevertheless, under rapidly changing circumstances the system of planning could face difficulties in reacting too slowly through adjustment of contractual obligations, leading to misallocation of resources and the need for a complex system of compensatory fiscal transfers. The Yugoslavs are very much aware of the potential inflexibility of the system. They foresee a system of "continual planning" operating in parallel to the medium-term plan. This process of continually evaluating the implementation of the Plan provides an opportunity to adjust contractual

1/ See for example T. Killick "The Possibilities of Development Planning", Oxford Economic Papers, July 1976.

arrangements through rephrasing of projects, re-ordering of priorities or where necessary, a complete abrogation of agreements and conclusion of new ones. This will certainly add considerable flexibility although the costs of making adjustments can be high in terms of the time needed to secure agreement among the parties affected.

1.85 A third potential weakness of the current planning system lies in the differential treatment of priority and non-priority activities. In the case of priority activities the process of harmonization is required by law to lead to an agreed-upon program by a predetermined date codified in legally binding obligations. There is no analogous provision in the case of the non-priority activities; agreement is encouraged (coordinated programs of action stand a much better chance of implementation than conflicting ones) but not mandatory. This dichotomy in treatment could lead to anomalies. The system of contractual obligation ensures supply and demand at the negotiated prices for the priority sectors, consequently in cases of shortages the price mechanism is nullified in its role as an allocator of resources between the priority and non-priority sectors. Therefore, the brunt of the adjustment would, initially at least, fall on the non-priority activities.

1.86 Finally, although an analogy can be drawn between the new system of planning and a set of procedures that would simulate the operation of forward markets with forward prices and deliveries, the precise mechanism ("rules") for reaching these agreements, a key element in the new system of planning and allocation, remains undetermined. In principle, decisions on the allocation of resources and the extension of capacity between different sectors and enterprises could be made through a bidding procedure. Conversely, the decision could be left to an independent arbitrator (such as the Federal Chamber of Commerce) which could, through cost-benefit techniques, determine the most efficient means of expanding production in a particular sector. Other mechanisms such as a pro rata distribution of additional capacity to all existing enterprises, or seeking political compromises can also be envisaged but these could lead to some inefficiency and misallocation. Although political compromises are likely to occur, the competitiveness and exchange of information between enterprises is nevertheless expected in the long run to encourage the use of objective criteria for allocating resources between alternative uses. This is likely to be further strengthened by the new provisions enabling enterprises to enter into pooling of resources arrangements: enterprises can make funds available to each other and share in the income earned through a (temporary) joint venture. 1/

1/ See paragraph 1.31.