

JUGOSLAVIA'S CROSSROADS

Bruce McFarlane

"When we mention the law of value we have so far always used alternatives: either the law of value or plan. I maintain that there is no 'either—or'; the law of value is not put against the plan, but the plan is an element of the law of value, the biggest, most important and most significant one at that."

(Dr. V. Bakarić, leading Yugoslav planner and Secretary of the League of Communists of Croatia in his *Current Problems of Constructing our Economic System*. Zagreb, 1963, p. 52).

SOCIALISTS all over the world have shown increasing interest in the workings of the Yugoslav economy in recent years. The discrediting of Stalinism and a growing appreciation of the economic and political problems of the bureaucratic State have focused attention on the techniques of decentralization that the Yugoslavs have been practising since the break with the Soviet Union in 1948. Today the Yugoslav "model" arouses envy in many parts of Eastern Europe as well as alarm in China. Not all economists in the Socialist countries are impressed, however. A current joke among economists in Poland runs: "What is Yugoslavia? It is the place where the last Stalinist died". The "Stalinism" of Yugoslavia, according to these Poles, is the semi-religious role played by the price mechanism ("law of value") in all Yugoslav discussions and policy-decisions. It is certainly true that most of the enthusiasts for workers control, non-bureaucratic planning and self-management have failed to question the assumption of Yugoslav political and economic writers that "real" prices are determined by a largely free competitive set of market forces. In the same way as the system of prices in a capitalist economy is arbitrary and often unconnected with the assumed efficiency of market forces, so a close examination of the Yugoslav economy would reveal the presence of a high degree of monopoly in price structures which are real only in the sense that they are arbitrary.

I

Much of the writing about Yugoslav economics has been misleading. In large part, this has been the result of establishing an idealized model of the economy rather than an analysis of its historical evolu-

tion since the liberation of the country from the Nazis. Socialist Yugoslavia has passed through three distinct phases since 1945: the first period, 1945 to 1950, were the years of reconstruction, highly centralized planning, a very heavy rate of investment (about 29 per cent of the gross social product), and from the time of the break with Russia, a period of dislocation resulting from the economic blockade imposed by Eastern Europe.¹ The second period, 1950 to 1960, was a decade of rapid economic growth as the investment of the previous years came into full production, and as the new system of "market Socialism" and workers' control of enterprise began to increase incentives and improve efficiency. The third period, 1960 to the present day, has been characterized by a marked trend towards autonomy and even anarchy in economic affairs, and there developed an extreme liberalism in economic policy and a revulsion against anything but the mildest forms of indicative planning. At the same time and as part of these general trends there has occurred a rapid development of self-management in economic and political life. The first two periods have been widely discussed but it is this last period which in many respects represents an important break with previous policies and previously held ideas and which has been least understood, both inside as well as outside Yugoslavia.

It is argued below that the worship of prices and "profitability" in Yugoslavia in recent years has been leading to some of the distortions which Marx associated with the "fetishism" of commodities, that is, relations between social groups taking second place in importance to relations between goods and to the needs of the market. The issue is one of great importance since many socialists in both East and West cannot conceive of a truly decentralized economy, an economy guided by self-managed enterprises, without attaching the market system to it as a kind of economic-political motor in order to make the whole thing work. There are also those who wrongly imagine that the market system provides an automatic in-built protection against bureaucracy, although they have never bothered to analyse how this works in practice, or to bring evidence to support such a proposition.

There are two other lines of criticism of Yugoslav developments which are less fundamental or substantial than the one implied in Polish scepticism.² These are, in the first place, the attacks emerging from China? which have something of the persuasive efficiency of a steam-siren. There are also secondly those criticisms contained in the well known essay by Paul Sweezy and Leo Huberman⁴ which Yugoslav politicians regard as far more serious and damaging than the "proof" supplied in China that there has been a restoration of capitalism in their country.

The Chinese argue that there is a growing private capitalist sector in petty-commodity production such as crafts, services and catering.

The private sector in agriculture still accounts for 85 per cent of land ownership. More important, there are wide fluctuations in economic activity, including inventory cycles, so that "truly this is a living picture of capitalist reality".⁵ Workers' self-management, runs the most important of the Chinese criticisms, is a device for allowing a system of bourgeois co-operatives to develop, industrial co-operatives controlled by managers acting on behalf of a new "bureaucrat-comprador" bourgeoisie whose political face is the League of Yugoslav Communists. This new social class, we are told, does not allow even these self-managed enterprises any genuine autonomy since they take away at least three-fourths of their net income before tax.⁶ On the ideological plane, the Chinese accuse the Yugoslavs not only of putting forward revisionist doctrines on the nature of contemporary capitalism, but of peddling a phoney version of Marx's concepts of alienation and humanism under the slogan "everything for the sake of man".⁷ The introduction of "payment to work" and "material incentives" into Yugoslav principles of income distribution encourages a profit motive fetish and brings about attempts to "replace the Socialist economic principles of planning by the capitalist economic principles of profit, paving the way for the liberalization of the economy and the degeneration of Socialist economy".⁸ As part of this process, "Yugoslav theorists are becoming more and more receptive to the fashions and vogues of bourgeois economic theory".⁹

After reviewing these Chinese criticisms, Sweezy and Huberman rejected the suggestion "that a restoration of capitalism has taken place in Jugoslavia", but argue that "the present system is developing towards a kind of corporate capitalism likely to resemble in many respects the present French system".¹⁰ The political foundations for this have been laid by an absence of ideological content in education, by the growth of apathy and selfishness among the population and by the failure to put forward political concepts appropriate for the new society. The economic preconditions for the new trends were set "when it was decided to restore production for profit as the prime mover of economic activity. Without the institution of private property, production for profit is not yet capitalism. But inevitably it generates capitalist mentality".¹¹ The number of issues raised here is, of course, very large and their interaction is most complex. To assess the Chinese and Sweezy-Huberman polemics, discussion needs to centre on the following questions:

What were the real origins of (a) workers' self-management and (b) market forces in Jugoslavia? How does the economic system today compare with what it was in the more centralized period of planning 1952-60? What have been the results of the swing to economic liberalism since 1960? To what extent does Yugoslav reality correspond to Yugoslav political and economic theory? What is the actual character of the new system? Is it an instrument to accelerate

productivity in the period of transition to a Communist society? Or is it a kind of corporate economy controlled by workers in their role as managers? Or a new kind of capitalism? What is its future? Are there any important lessons, positive and negative, in Yugoslav experience with self-management and "market Socialism"? Or is Yugoslav experience the result mainly of local conditions and traditions, and the size of the country?

II

The System at December 1960

After the split from the U.S.S.R. in 1948, the Yugoslav leaders were forced to strike out on their own and to develop what they conceived to be a *rival model* to that which they criticized in the U.S.S.R. The elements of this model were derived from two sources. In economics, Boris Kidric, President of the Economic Council and the Federal Planning Office, stated simply that practical considerations required the widespread use of supply and demand rather than centralized planning.¹² In politics, Tito promoted anti-bureaucratism with the twin doctrines of the "withering away of the state" (beginning soon after the revolution was established) and workers' control of productive property.

The analysis of bureaucracy tended towards a full scale re-examination of the nature of the Soviet society, which at one stage was labelled as state-capitalist by leading theorists.¹³ Later it also meant the revival of the theories of Trotsky, Gorth, Gatz, Korsch, Makaiski and others.¹⁴ In 1958, Bukharin's *Notes of an Economist* was circulating in roneod form in the Federal Yugoslav Planning Office.

From the beginning of the new system, it was obvious that there would be difficulties in combining "plan" and "market". Divergencies between planning goals and the allocation of resources resulting from the operation of the market were bound to arise. The problem of the nature of prices—their hybrid character as a mixture of equilibrium prices and operational prices—remained unsolved. The danger of unplanned movements in the demand for capital, where undistributed profits and depreciation reserves remained with enterprises, required a careful investment policy. Yet until 1960, these problems were not allowed to get out of hand: a number of "pegs" were constructed which held together the system of enterprises responding to market signals within the framework of a general plan. These "pegs" included (a) centralized control over the *sectoral* distribution of investment funds, covering 60 per cent of the annual investment fund; (b) control over the distribution of income via fiscal measures: a tax on the value of fixed and circulating capital, taxes on enterprise income, taxes on excess profits, turnover taxes;¹⁵ (c) control over distribution of "income after tax" within the enterprises: the proportional *distrib-*

bution of this income between bonus wages, investment in housing and amenities, and depreciation reserves and ploughed-back profits; (d) price control over products in monopolistic industries and over essential wage-goods (food and fuel). Above all; there was the active role of the League of Yugoslav Communists at the enterprise and commune level and the Socialist Alliance at the national level. A half-way house had been achieved, institutionally, between the demands of planning and the strategy of growth on the one hand, and the relative autonomy of enterprises and communes on the other. In agriculture, State farms were encouraged to develop with a generous provision of funds, technicians, equipment and seeds, and production and marketing co-operatives were encouraged. A centralized banking system allowed some evening-out of regional disparities in economic development. Foreign exchange and import controls held the consequences of a persistent balance of payments deficit in check.

III

The Swing to Economic Liberalism 1961-5

In 1961, this "half-way house" was deliberately abandoned under the slogan of "more decentralization", "increased autonomy of units" and "the need for real prices". The policies to achieve this were introduced suddenly, even capriciously, during 1961. First, it was decided to eliminate all controls over the rights of enterprises to distribute their income after tax. Next the central investment fund was reduced in size, the proportion of investments financed by the central government being cut from 38.6 per cent in 1959 to 22.5 per cent in 1963. To this end, the banking system was also decentralized and new commune banks to finance local economic activities were established. Import controls were reduced and a foreign exchange devaluation carried out to "encourage tourism".

The sudden introduction of these changes, coupled with a low level of agricultural production in 1961-2, caused an economic recession. Stocks of unsold goods rose by 20 per cent; the total supply of goods increased by only 1 per cent compared with an increase of more than 6 per cent in previous years. Gross Social Product at constant prices in 1961 and in 1962 rose 4 per cent, whereas the annual rate of increase over the 1957-60 five year plan had been 13 per cent.¹⁶ Industrial production, which had been planned to rise by 13 per cent, rose by less than 7 per cent. The 1960-5 plan was abandoned: the economy was to be stabilized on an *ad hoc* basis which included severe credit restrictions and the re-introduction of price control.¹⁷ The changes introduced after 1959 created considerable dissension inside the community of Yugoslav economists and planners.¹⁸ Those who saw virtues in continued central planning until such time as the economy reached

a higher level of economic development, such as Nikola Čobelić and Radmila Stojanović, dropped out of advisory work for the Planning Commission. Their places were taken by Yugoslav economists returning from post-graduate study in Britain and America. Among these was Branko Horvart, who rapidly became a leading figure in Yugoslav economic planning and policy and whose book, "addressed to fellow planners"¹⁹ is the work of a Western and certainly not a Marxist economist. Conservatives like Professor Bićanić, long-time opponents of central planning,²⁰ became increasingly influential.

As the crisis of 1961–2 developed, serious structural faults in the economy became increasingly obvious. Excess capacity and the development of an oligopolistic structure grew apace. Bureaucracy, instead of diminishing, intensified at the commune level where excessive investments in prestigious and non-productive buildings reached the dimensions of a scandal about which the political leadership protested.²¹

By 1963 the problem of excess capacity had become serious. In the economy as a whole only 54 per cent of capacity was in use (as measured in horsepower and consumption of energy).²² In part this arose because machinery stood idle waiting for the raw materials and electric power that had not been developed in the great flurry over decentralization after 1959. It also arose from the increasing degree of monopoly and the growing ineffectiveness of taxes on fixed capital to counter the deliberate excess capacity arising from the reluctance of monopolistic firms to expand output and reduce prices. Monopoly power had been growing since 1954; but even at that time "many industries, including steel, non-ferrous metallurgy and heavy chemicals were not behaving competitively".²³ After the downturn of 1961–2, it was estimated that the economy was carrying enough excess capacity to allow a 20 per cent increase in output, without any new investment.²⁴

At the same time, industrial production after 1962 improved rapidly, rising by 16 per cent in 1963 and 1964. It might be asked, then, how it came about that a high level of excess capacity existed side by side with high rates of investment and growth of output. The answer lies in the fact that investments were stepped up in labour-saving devices to reduce the high costs arising from under-utilization of capacity—costs which threatened the effectiveness of Yugoslav manufactured exports. There has also been heavy pressure for new investments in the underdeveloped regions. Yugoslavia is still in the phase of "extensive" rather than "intensive" investments: new factories are built rather than existing factories being extended and modernized. The amount invested in the construction of new enterprises has been running at a figure two and half times the annual average investment made in the sector of heavy industry.²⁵ Excess capacity tends to be endemic in new enterprises with limited markets;

heavy investment therefore tends to improve output at the global level of the economy, but at the industry level excess capacity means that such investment involves a low coefficient of effectiveness.

The new course in economic policy began to develop a logic of its own. If market forces were to be the operational factor in production, why not in investment, and indeed in social services and other spheres? Why have central plans at all if fiscal and monetary intervention could guide a predominantly "free" economy?

In December, 1963, the General Investment Fund was virtually abolished.²⁴ This had previously been crucial in holding the branches of the economy together by central allocation of funds to the sectors and industries that had to be developed, so that the main direction and structure of growth could be adjusted to the central plan. Nine months later it was announced that the level of investment was running 40 per cent above the plan, and in October 1964 a ban on investment funds for all non-productive investments was announced.²⁵ In the new system devised after the abolition of the General Investment Fund, Republican Investment Banks are replaced by "economic banks" which are instructed to follow the profit motive themselves by lending to investment outlets with a high rate of return. These Economic Banks also replaced the Investment Banks as the institutions responsible for conducting investment auctions. The rights of enterprises to obtain long-term credits have been greatly increased. If they can provide a certain percentage "participation" specified for industrial branches (i.e. a certain share of the total investment required for a project) then they automatically receive credits. It is clear that funds will flow to those who are already strong, and that the position of monopolies will be strengthened. The only central control that remains in the system is the manipulation of the percentage participation required of the investor which however might be lowered, for example, for the electric power trusts, if an electricity shortage developed.

The Yugoslav authorities claim,²⁶ in justification of the new system, that the General Investment Fund was a "centralist-administrative" device, and that its utilization was strongly influenced by the political pressures of federal republican and commune governments, resulting in expensive construction (administrative buildings, projects with long gestation periods and expensive "shells") as well as other non-economic investments. Undoubtedly this happened. What is not so certain is that the new system, which encourages independent investment action by enterprises, supplemented by bank investments allocated on strict economic criteria, will increase productivity as expected.

It seems clear from what has happened already that the predictions of a number of Marxist economists (Maurice Dobb for instance) made years ago have already come about. In order to prevent un-

employment growing as marginal firms go out of existence it is necessary to maintain the rate of investment at an arbitrary level—especially as a price-cut ordered from the centre to dispose of goods is not open to a market socialist system. More important, such a system will tend to develop instability and jerkiness in its investment rate: the demand for capital from enterprises will fluctuate with the rate of growth of the economy, tending to change directly and not inversely with changes in the rate of investment. In the jargon of Western economists the "marginal efficiency of capital" schedule is not independent of the rate of investment.

Prices have also begun to increase. The cost of living index rose 7.5 per cent in 1961, 10.5 per cent in 1962 and 5.3 per cent in 1963; the three years following the swing to economic liberalism saw a growth in the cost of living greater than for the whole period 1952-7.²⁹ Worse was to follow. The cost of living was increased by decree by as much as 24 per cent in August 1964³⁰ while minimum wages were increased by only 10 per cent.³¹ Between August 1964 and March 1965 prices rose another 33 per cent, wages rising 15 per cent. After pressure from the Trade Union Congress, a decision taken by the Federal Executive Council operated a standstill on the prices of goods and services at the level prevailing on the 22 March 1965.³² The decision was accompanied by the intriguing statement that "consumers are in the long run the best controllers of price".³³

What was the reason for the inflation after 1961? Yugoslav authorities never blame monopoly or the behaviour of enterprises. They always point to excess investment over the level provided in the plan,³⁴ or to a type of investment that freezes capital in long-term projects, or to declines in agricultural output, or to the "wage-price spiral". One other explanation has been given that explains the direction in which economic policy is moving. The opening of a price-scissors in favour of agricultural products has been justified, despite its effects on the cost of living, by pointing to the need to compensate peasants for the previous surplus extracted from them to finance industrialization,³⁵ as well as the encouragement (via higher peasant incomes) of a wider internal market for the sale of industrial and consumer goods. Such a rise in agricultural prices, by reducing the differentials between agricultural and urban wages, would also stop the drift of the younger, more productive workers from agriculture to the towns. It would also, it is thought, help to force up land prices so that peasant families will be given the incentive to invest in their farms and thus expand agricultural output. Following this line of reasoning, Yugoslav spokesmen claim that there will be no net increase in the general price level, since the alternative would be to increase the pace of industrialization in order to absorb the flow of the ex-peasants.

What is interesting about these proposals is that the obvious alter-

native solution namely the Socialist one, of expanding output by improving and expanding the state sector in agriculture did *not even get a hearing*. Yet, unlike experience in the rest of Eastern Europe, agricultural productivity on State farms has consistently been higher than in the private sector, and sometimes very much *higher*.²⁴ The recent rise in agricultural prices is surely, then, a striking example of faith in market forces.

Above all, it is clear that there is little that is automatic or optimal about the Yugoslav price system. The abandonment of controls over income distribution within firms, and over the central direction of investment allocation, actually led to an unpublicized retreat into price control.²⁵ Even in the relatively stable period 1952-60, the arbitrariness of turnover taxes and enterprise income tax was quite marked. The share of turnover taxes in "value added" (net output) in the electrical goods industry was 10 per cent in 1954, 20.5 per cent in 1955 and 12.6 per cent in 1960; in textiles it was 4.4 per cent in 1953, 46.8 per cent in 1954 and 26.9 per cent in 1960. Similar examples can be cited for ferrous metals, metallurgy, tobacco, clothing and shoes and many other industries. The excess profits tax was at first progressive in its burden upon enterprises, and then it was later levied on profits amounting to more than 6 per cent of the total value of capital stock. In 1960 it was made proportional, and this provided a windfall to wealthier enterprises. But windfalls of this kind are rarely powerful incentives to expand output. For many years the approach was simply that if a firm made large monetary gains they were to be penalized, and no rigorous means have been found to separate the profits that are actually due to windfalls or monopoly power and those that are the result of higher productivity and sales. A "fear of excess profit tax" was created in many industries, with debilitating effects on incentives and innovation.

In the absence of central intervention, the conclusion must be that prices are in fact arbitrary. This is so partly because of the arbitrariness of fiscal intervention, discussed above, and partly because many prices tend to be settled by managers over dinner with their rivals or by other forms of collusion: a process which is considerably assisted by the present organization of Yugoslav enterprises into industry-associations and chambers of commerce.

Perhaps the most important of all recent trends has been the growing reaction during 1964 and 1965 against central planning as such. The abandonment of the 1961-5 Plan is put down to "bad central planning" rather than to the too-sudden introduction of new economic measures after 1960. A growing number of articles in the Yugoslav Press advocate the replacement of central plans by "general resolutions" about the desired lines of development, leaving it to firms and communes to implement the strategy. The Parliament in the Slovene Republic refused to adopt the annual plan for 1964 and re-

placed it with a general resolution on economic development. In Croatia, Dr. Bakarić put forward the view that the new trends have not gone far enough: "today we are approaching changes in the economic system from the point of view of centralization versus decentralization. To put it a little more simply this means--do I alone have the power or do five of us have it. Here the ideological basis, the basis of social and economic relations in this venture does not change. We must switch over to freer economic relations."³⁹ And the most comprehensive recent statement of policy claims that "under present conditions of national income distribution, socio-political bodies still have considerable say in the management of the economy, particularly as regards the expansion of productive forces and investment decision-making. This has hindered the development of self-management and the intensification of business in economic organization."⁴⁰

This statement of aims appears in the draft resolution for the new seven year plan. It is an important economic document. In public discussion, however, it has been over-shadowed by the more dogmatic Resolution adopted by the Federal Parliament in May 1964. This was entitled "Basic Problems of the Further Development of the Economic System" and it represented a clear demand for the further development away from a planned economy: its main slogans being fewer controls, and increasing use of market forces and above all, less central planning.⁴¹

IV

Self Management, "Integration" and Planning

In Yugoslavia today, economists talk about Socialist economic cycles which arise from the bunching of investments and the differently-timed replacement of capital equipment which do not have a uniform life span." It is clear, however, that part of the cycle is also due to the impact of incentives on investments which is particularly crucial in an economy in which such a percentage of investment is carried out by decentralized units, that is by enterprises and communes. Inventory cycles are part of this cyclical movement and in turn give rise to the growth of familiar phenomena: excess zeal in advertising, output-restriction, and so on.

Yet the dynamics of the economy are obviously powerful enough. Despite the economic crisis of 1961-2, the swings in investment rates and fluctuating export fortunes, the trend rate of growth is still high, and the dynamism in certain industrial branches is most impressive, reaching growth rates of 10 per cent and more above the plan in 1964-5. There are, therefore, powerful stabilizing forces in operation—although they are not always the ones most stressed in Yugoslav

discussions. This stabilizing and growth-producing element is, paradoxically, based upon a certain retreat into centralism in the field of pricing and industrial administration. It is obvious that an economy as decentralized as the Yugoslav needs some kind of "peg" to hold the system together. In the past this was the ratio of 60 : 40 in favour of central investment allocation to the main economic sectors; with this abandoned, it is price control and the increasing official encouragement of "integration" and "concentration" in industry.⁴³ Price control forces enterprises to earn profits by expanding their sales to obtain extra revenue. Integration and co-operation raise productivity and reduce unit costs.

A recent survey analysed 2,684 "large" firms, selected for their size, measured by number of employees, value of assets, investment outlays, taxes paid and volume of retained profits. Ten per cent of the firms sampled controlled half the work force in manufacturing, and 70 per cent of the value of assets.⁴⁵ This high degree of concentration inevitably raises some new problems for the economy as a whole.

The small or medium competitive firm bought its materials and sold its products at prices over which it had no control. Hence it could only attempt to maximize profits by improving its technique or its organization. In a small national market like the Yugoslav, however, the monopoly firm is large not only in terms of the industry to which it belongs, but in terms of the nation's economy (e.g., oil firms). Prices at which it sells outputs and buys inputs are not objective market data, but magnitudes depending on its own operations and on those of a small number of similarly situated enterprises. The workers' management board in such a firm will seek to maximize the flow of profit over a much longer period. It will substitute capital for labour; it may be interested in profits per worker, while the local commune to which it owes taxation will be interested only in total profit. The drive for maximum profits under these conditions no longer involves merely finding the best ways to reduce costs of production. Unless there is price control and unless responsible policies are pursued by self-managing organs, it pays to overinvest in capacity and to keep reserve machinery to supply new markets at short notice as well as to encroach on its competitors.

The trend towards integration is, however, an objectively necessary process and it also brings benefits. Modern automotive industries require large scale; there is only room for one or two large plants in a small market. This objective process *undermines the myth of free competition and the efficacy of free market forces* so prominent in Yugoslav ideology. It also forces a re-consideration of the actual role of self-management, the price mechanism and central planning. It is no longer necessary to promote the "market" and excessive decentralization in economic affairs. The more important issues *of improving the self-management of large modern enterprises and of democratiza-*

tion of the planning process itself arise. Instead of a lazy retreat into a belief in the market as an automatic anti-bureaucratic force, and illusions that bureaucracy exists only in central ministries and not at the enterprise and commune level, Yugoslav theory and practice must tackle the problems of how to decide, democratically, the rate of growth and the rate of investment in conditions which favour monopolistic competition, large-scale industry and realistic, flexible central planning. The computer revolution and the improvements in planning techniques and methods in the U.S.S.R. and Poland have caught the Yugoslavs unprepared. The possibilities of streamlined, feasible central plans (which also reduce the autonomy of oligopolies) were not available to them when they struck out on a new-course in 1950.

The possibilities here are considerable. More than one million workers have experienced self-management. By and large, self-managed enterprises have acted with maturity and a notable response to the needs of society. This experience can now be harnessed to find the correct relationship between the processes of integration at work in the economy, and workers' self-management.⁴⁴ Research has already shown a marked trend in this direction and that

"not rarely has it been proved that it is easier for representatives of the self-managed bodies of the economic organizations interested in integration than for certain chiefs and managers to find a common language in direct contacts. The working collectives almost always solve successfully the major and complex problems—the determination of production programmes, the formation and implementation of investment policy, surplus manpower, the co-ordination of interests of individual parts of the enterprise, the regulation of the relations between self-management bodies and the executive bodies arising as a consequence of the formation of a larger integrational economic organization."⁴⁵

The Yugoslav system is poised on the threshold of a new orientation. Objective processes in the economy favour concentration on improvement in self-management in large enterprises, but with the retention of price control. Developments in planning techniques favour streamlined democratically determined plans. Political changes reinforce these possibilities following the re-organization of the League of Communists in 1961 and again in 1964. These changes concentrated activity in autonomous production units within the larger units of industry and also reduce the dominance of Communists in political elections at the commune, federal and Republican level, thereby ensuring, through the provisions of the 1963 Constitution on rotation and recall in all political bodies, the possibility of more democratic decisions about planning and the economy.

The time may be near when the smokescreen of "market Socialism" and the worship of price-mechanisms will be dropped. The "fetishism

of commodities" could increasingly be replaced by a self-managed economy and the democratization of the planning process. The period of market socialism would then be seen as a transitional period in which the decentralized market economy was a necessary, but not sufficient condition, for a non-bureaucratic Socialist economy.

V

Theoretical Implications and Assessment

If the above analysis is correct, how can the Chinese and Sweezy-Huberman critiques be assessed? The crucial questions concerning the Chinese position undoubtedly centre on the issue of whether there has been a capitalist restoration, or not.

A system of competition between socialized and self-managed enterprises cannot be fairly described as "capitalism" even where economic fluctuations and the development of a profit ethos have emerged. It could only be so described if private property was dominant and increasing, and there existed a clearly class-divided society which determined the structure of demand as well as a capitalist group which controlled the state, the government and the economic life. The U.S.S.R. had its New Economic Policy (was it really *capitalism?*); in Poland 85 per cent of agriculture is held by small private peasants—is it a *capitalist* economy? Until 1960 China itself boasted of the number of millionaires that were "helping the government", and since 1961 has introduced a very substantial market element into the output distribution of agricultural products.⁴⁶

On a number of minor issues the Chinese critics make valuable points. There is certainly a danger in the Western penetration of the Yugoslav economy through joint-production and marketing arrangements with West European firms, if this were allowed to develop in importance.⁴⁷ In agriculture, not enough has been done to reduce the size of the private sector⁴⁸ and to increase the importance of state and collective units. Both these charges are also true of Poland and Rumania, without the need to describe them as "capitalist". The Chinese mistake the inevitable distortions of a market system in the period of transition with a capitalist restoration. Above all, the Chinese seriously underestimate the socialist revolutionary content of the fifteen years of self-management and the continuing impact of the nationally inspired and successful socialist revolution of 1941-45.

Sweezy and Huberman on their side undoubtedly highlight a serious dilemma in present Yugoslav society. In an attempt to avoid bureaucratic control of society by a rejection of central planning and the choice of a market system, the Yugoslavs have experienced the logic of that situation: a growth of inequality between enterprises and individuals, a profit ethos which extends even to differential payments of

social services according to the contributions of the individual. There is also something of an obsession with personal problems and an excessive promotion of material incentives. Yet what was the alternative after 1950? Do Sweezy and Huberman really believe that a society can be indefinitely run on the principles of permanent political excitement? Do they really believe better results would have been achieved by a system of obedience plus slogans rather than by the practical involvement of huge numbers of people in the administration of economic affairs coupled with productivity devices to increase the returns to workers' collectives? At no stage in Yugoslavia have "material incentives" as an operational principle in influencing income distribution matched the anti-egalitarian and piece-work methods adopted by the Soviet Union during its "transition period". Implicit in Sweezy's approach is an assumed purity of Soviet experience which is quite unreal (but which is nevertheless contrasted with Yugoslavia), and an equally unreal "all or nothing" approach which assumes an ideal that is believed to be attainable: in fact, as Lange has pointed out, all Socialist systems have so far been incomplete, even underdeveloped.

What we have seen in Yugoslavia is an excessive use of the market as a regulator of social and economic life in a period of transition. In these years the Yugoslav system emerged as an alternative model to hyper-centralism without a surrender to capitalism. The various changes in fiscal and monetary measures, and the various ways of allocating incomes were seen as means of raising productivity, not as ends in themselves. The speed and incidence with which these measures have been changed surely demonstrates that what is involved here is a re-assessment of some established Marxist dogmas rooted in the 1930's.

It has long been an article of faith with many Marxists that the early phases of the development of a Socialist economy must follow a certain broad pattern. This pattern, in the words of the Polish economist, Oscar Lange, resembles that of the "war economy". It is argued that when the productive forces of a Socialist country are underdeveloped, political and economic centralism is necessary. Rationing of scarce resources, fixed prices and controls as instruments of State policy form a centralist model akin to war-time planning in the capitalist countries. Such an economy is seen, not as a political aberration, but as an "historical necessity". The necessity for centralism then diminishes as the economy becomes more mature, more developed. In the end, the complexity of the economy, the large number of enterprises make centralism cumbersome, and freedom for Socialist enterprises with respect to trading and investment, becomes not only possible but desirable.

Jugoslav experience has, to a large extent, turned this argument on its head. It is market Socialism which is suited to the transition

period as a way of getting to a society of relative abundance. As argued above, the principle of needs may fit in well with a highly developed, self-managed economy acting *within* a highly elaborate central plan. Optimal solutions do not wait on the society of abundance, they are a means of getting to it and are thus more urgent and more relevant to the transition period. Naturally, even during the transition period it is important to guard against the impact of the market in disrupting solidarity and perverting self-management from a system which looks outwards to the needs of other regions and other sections of society, to one which looks inward to an ownership relationship. Doubtless, in Yugoslavia vigilance has often been lacking. This does not however, justify a description of the Yugoslav experience as a "kind of corporate capitalism" moving towards the "French variety", with which it has very little in common. If planning itself is further democratized, its resemblance to French planning will diminish to zero. Ultimately, the alienation and the anti-Socialist ideology which emerge from commodity-fetishism need to be destroyed. Whether the Yugoslavs could have been expected to do this completely by now is doubtful in the context of the urgent need to increase total production. At the present time, more could be done in this direction by less emphasis on "self-investment" in enterprises and price mechanisms and more on a politically free determination of planning goals and the wider use of price and other controls in the social interest. The success of this development will depend heavily on the role of internal forces; it may require changes of leading personnel as well as of attitudes. There are still many who extol the market *as an alternative* to democratized planning. Typical of this is the attitude recently expressed by a leading economist: "the new relationships based on self-management presuppose the separation of the functions of *planning*, from the functions of direct **management**".⁴⁹

If, however, the market is greatly diminished in importance by integration and planometric techniques, it will be possible to develop workers' control, self-management and democratized planning, not merely as parts of an economic system, but as a political structure which determines the priorities and policies to be considered in planning. The *sine qua non* of this development is a greater competition between rival policies, and an even higher political consciousness by the councils of workers in determining national goals as well as local ones. The recent 8th Congress of the League of Communists in November, 1964 was highly encouraging in this respect.⁵⁰

To sum up: the system of workers' self-management operating in a small country with a tradition of collectivism in the village and the experience of self-management in the liberated areas during the war is a success. Yugoslavia is a Socialist country. But the market system does represent a danger to Yugoslav Socialism unless the logic of

commodity fetishism is vigorously combated in politics and ideology. The possibilities of expanding self-management while at the same time reducing the dependence on the market are increasing; and the clash of conflicting tendencies within the Yugoslav economy needs to be carefully examined and analysed by Socialists everywhere.

NOTES

1. S. Vukmanovic-Tempo in *Nša Stvarnost*, No. 7-8, 1957.
2. The earliest and most dogmatic statement of Polish scepticism arose after experiments with workers' control and "decentralized planning" in Poland between 1956-57: "If every factory became a kind of co-operative enterprise of the workers, all the laws governing capitalist enterprise would immediately come into effect and produce all the usual results. Central planning and administration . . . would have to disappear." (W. Gomulka, Secretary of Polish United Workers' Party in *Nowe Drugi*, June 1957). Since then, any *a priori* refutation of market socialism has been avoided, but Polish scepticism has not been substantially reduced.
3. The most detailed are: *Is Yugoslavia a Socialist Country?* (*Peking Review*, 27 September 1963) and Chou Yang, "The Fighting Task Confronting Workers in Philosophy and Social Sciences", *Peking Review*, 3 January 1964, pp. 10-27.
4. P. Sweezy and L. Huberman, "Peaceful Transition from Socialism to Capitalism?" *Monthly Review*, March 1964, pp. 569-90.
5. Liao Ching, "Yugoslavia's Economic Troubles" *Peking Review*, 17 August 1962, p. 12.
6. "Behind the Yugoslav Strikes" *Peking Review*, 8 May 1964.
7. Chou Yang, *loc. cit.*, p. 20.
8. *Ibid.*, p. 21.
9. *Ibid.*
10. Sweezy and Huberman, *loc. cit.*, p. 587.
11. *Ibid.*, p. 588.
12. B. Kidrić, *Privredni Problemi F.P.R.J.* (Economic Problems of the Federal Republic of Yugoslavia), Kultura, Belgrade, 1950, p. 106.
13. For example, J. Sirotković, *Planiranje Prosirene Reprodicije u Socijalizmu*. (Planning of Expanded Reproduction under Socialism) Zagreb, 1951, p. 110.
14. For example, J. Djordjević, *Birokratija i Birokratizam* (Bureaucracy and Bureaucratization), Kultura, Belgrade, 1962.
15. In 1959, the resources left at the disposal of enterprises amounted to 20.1 per cent of total investments, the interest paid by enterprises for loans 14.8 per cent, enterprises taxes 307 per cent and turnover taxes 209 per cent.
16. National Bank of the Federal People's Republic of Yugoslavia, *Annual Report*, 1962, p. 4.
17. B. Krajer, "Current Problems of Yugoslav Economic Policy" in *Documents of the Fourth Plenum of the Central Committee of the L.J.C.*, "Jugoslavija", ed., Belgrade, August 1962, p. 53.
18. As Tito well put it, "the speakers could be divided into two groups: economists and communists". See J. B. Tito, *Concluding Speech at the Second Plenary Session of the L.J.C.* 19 November 1959, p. 2. See also the discussions about the move away from planning in *Ekonornista*, No. 1, 1963, and No. 3-4, 1963.

19. B. Horvart, *Towards a Theory of Planned Economy*. English ed. Belgrade, 1964, Preface.
20. R. Bičanić, "Economic Growth Under Centralized and Decentralized Planning", *Economic Development and Cultural Change*, vol. XI, No. 1, October 1967, pp. 63-74. Bičanić blamed central planning for a slow growth rate of 2 to 3 per cent between 1947-51 without fully conceding that investments made then did not come into fruition until the decentralized period 1957-60. Later, he complained of the excess amount of centralism in investment allocation, lauded rapid growth during 1956-60 as the product of decentralization and the market, condemned "the arbitrariness of central planning" and welcomed the "new atmosphere" caused by expanded exports to Western Europe and the growth of tourism. (Bičanić in *Kyklos*, 1963, pp. 677-8.)
21. *Report of the Federal Executive Council for 1961* (English ed.) p. 21; A. Ranković, *Speech at Fourth Plenum L.J.C.*, 1962, p. 9.
22. S. Vukmanović-Tempo, "Current Tasks of the Yugoslav Syndicates in the Struggle for Raising the Standard of Living of the Working Class" *Speech at the Fifth Congress of Yugoslav Syndicates, Belgrade*, March, 1963, p. 21.
23. J. M. Montias, "Economic Reform and Retreat in Yugoslavia", *Foreign Affairs*, 1959, p. 305.
24. M. Minić, *Speech at the Fourth Plenum of the League of Yugoslav Communists* (Belgrade, 22 July 1962) Jugoslavija ed., p. 67. See also *Review of International Affairs* (Belgrade), 20 January 1963, p. 21.
25. Federal Bureau of Statistics, *Osnovni Podaci O Udelu Novih Preduzeca U Industriji*. (Basic Data on the Participation of New Enterprises in Industry), March, 1959, p. 15.
26. *Službeni List* (Official Gazette) No. 52. 1953; "Zakon o Upotrebi Sredstava Federacije Za Investioŕje U Privredi." (Law on the Use of Resources of the Federation for Investment in the Economy).
27. *Kommunist*, 18 October 1964 and *Borba*, 20 October 1964.
28. Jugoslovenska Investiciona Banka, *Annual Report 1963*, p. 17.
29. Federal Bureau of Statistics, *Tendovi Cena* (Trends in Prices), Belgrade, November 1963, p. 64.
30. *Politika*, 4 November 1964.
31. *Politika Ekspres*, 5 November 1964.
32. *Večeren Novosti*, 27 March 1965, p. 4.
33. *Ibid.*
34. B. Jelić "The Social Plan for 1965" *Review of International Affairs* (Belgrade), January, 1965, p. 19.
35. *Ibid.*, p. 20.
36. U.N. Economic Commission for Europe, *Economic Survey of Europe in 1959*, ch. vii, p. 49.
37. In 1959, products subject to ceiling prices and intervention of the Prices Office amounted to 27 per cent of the total value of industrial production. *Annals of Collective Economy*, April-November, 1959, p. 117. Between 1961 and 1964 this figure had risen to 70 per cent. See Library of the Federal Parliament, *Osnovni Problemi Daljneg Razvoja Privrednog Sistema* (Basic Problems of Further Development of the Economic System) Belgrade 1964, p. 13.
38. V. Bakarić: in *Ekonomaska Politika*, 10 October 1964.
39. Federal Planning Commission: *Nacrt Rezolucije O Smernicu Za Izradu Drustvenog Plana Jugoslavije Za Period 1964-70*, (Draft Resolution on Guide Lines for Drawing up Yugoslavia's Social Plan for 1964-70 Period), June 1964 p. 4.
40. *Osnovi Problemi Daljneg Razvoja Privrednog Sistema, loc cit.*, pp. 109-18.

41. This thesis is contained in a forthcoming book, N. Čobelić and R. Stojanović, *Investment Cycles in Socialist Economies*, Belgrade, 1966.
42. "Role and Tasks of Communists concerning Integration in the Economy", *Borba*, 13 October 1964, and A. Zibar, "Rationalization", *Borba*, 31 October 1964.
43. Federal Bureau of Statistics: *Facts on the Concentration in Yugoslav Industry in 1961 and 1962*, August, 1964.
44. A programme for rationalizing and harmonizing the integration tendencies in the economy has been drawn up by a group of industrial experts in S. Mrksa, (ed.): *Integracija u Privredi*, Zagreb, 1963.
45. S. Grožđanić, *Some Problems of the Present Day Development of Workers' Self-Management*. (A Questionnaire-Survey conducted for the Confederation of Syndicates of Serbia), Belgrade, July 1963, p. 22.
46. F. Schurrnan, "China's New Economic Policy" in Chou Ming Li (ed.) *Industrial Development of Communist China*, Praeger, 1964.
47. One of the largest Slovenia enterprises, "Iskra", which produces electrical goods, has entered into arrangements with West German, Italian and American firms on production and marketing of electrical goods and small horse-power motors. The Director sees this as a way of "accelerating exports and freeing the firm from the influence of domestic shortages of materials, domestic market movements and economic policies". J. Pjević, "Dilemma of 'Iskra': Co-operation or Classical Export?" *Borba*, 26 October 1964.
48. Even here the Chinese estimate of the strength of capitalism in Yugoslav Agriculture confuses the control over land surface with control over the volume of production; nor do Chinese documents concede the importance of the legal ceiling of ten he-tares per person (compared with twenty hectares in Bulgaria) in checking the growth of Kulakism, and the use of differential money rents levied by the State in preventing the agricultural sector from exploiting the rest of the community. Yugoslavia experience compares favourably with the clumsier and more severe methods of obligatory deliveries used in the U.S.S.R. which reduced incentives and productivity.
49. B. Jelić, *Sistem Planiranja U Jugoslovenskoj Privredi* (System of Planning in the Yugoslav Economy), Belgrade 1963.
50. See the documents on the Congress published in *Review of International Affairs* (Belgrade), 20 December 1964, pp. 25-26 and 31-34. See also M. Jakić, "Proportion in the Economic System", *Kommunist*, 11 March 1965.