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Savez republičkih i pokrajinskih samoupravnih interesnih zajednica
za naučni rad u SFRJ učestvuje u troškovima izdavanja ovog časopisa.

SOME PROBLEMS OF THE LABOUR-MANAGED
YUGOSLAV ECONOMY
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ECONOMIC DEVELOPMENT AND INSTITUTIONAL REFORM:
THE INTRODUCTION OF WORKERS' SELF MANAGEMENT
IN YUGOSLAVIA

W. J. BARTLETT*

In their analysis of economic development the classical economists (Quesnay, Smith, Ricardo, Marx) place much emphasis upon the inter-relationship between economic institutions¹⁾ and the processes of economic growth.²⁾ The central focus of this analysis is the relationship between the institutional structure and the generation and utilization of an economic surplus.³⁾

In contrast, the contemporary neoclassical approach to this problem is located in the theory of property rights structures.⁴⁾ Here the usual data of neoclassical theory (endowments, technology, preferences), are supplemented by a parametric institutional framework which, through its operation on incentive structures, modifies the economic interrelationships of the model.

The introduction of workers' self management into the Yugoslav economy in 1951/3 and the subsequent series of institutional reforms (1957/1965/1974) invites a further analysis of the relationship between economic development and institutional formations. It will be suggested that the classical emphasis provides a suitable context within which this historical experience can be sensibly discussed.

In this paper the introduction of workers' self-management is discussed in the context of the whole reform process in which it was embedded. Section I looks at some relevant theories of institutional change concerning the distinction between centralized and decentralized socialist economies. These ideas form the basis of much of the discussion in the literature on the 1951/53 reform in Yugoslavia, and a review

* University of Southampton.

¹⁾ Economic institutions are defined as arrangements which involve the system of ownership control and co-ordination of, and between, groups of economic agents.

²⁾ See Adelman, I., *Theories of Economic Growth and Development*, Stanford 1962.

³⁾ See Gram, and Walsh, V.C., *Classical and Neoclassical Theories of General Equilibrium*, Oxford, 1980.

⁴⁾ See Furubotn, E.G., and Pejovich, S., *The Economics of Property Rights*, Ballinger, 1974.

of this literature is presented in Section II. Section III suggests inadequacies in these theories and in Section IV a different approach is put forward which, although centred on the example in hand, provides a framework for further analysis of the reform process in Yugoslavia throughout the post-war period.

I

The institutional reform of 1951 to 1953 has been referred to as a process of decentralization. Bićanić,⁵⁾ Horvat,⁶⁾ Waterson,⁷⁾ and Marschak⁸⁾ refer to the system of 1945-51 as "centralized" and contrast it to the system of 1951-1961/4 which they call "decentralized". Milenkovič⁹⁾ refers to the system of 1951-1960 as "decentralized market socialism" while Pejovich¹⁰⁾ refers to the "period of partial decentralization" lasting from 1952-1964.

The contrast between the concepts of centralized and decentralized socialist economic systems was first discussed by O. Lange and F. Taylor¹¹⁾ in the 1930's, long before it became an issue for the economic development of Yugoslavia (and other East European economies). They envisage a decentralized socialist economy in which prices would be centrally determined so as to mimic the price ratios which would exist in a competitive market economy. In this way the conditions which determine the greatest efficiency of resource allocation in terms of economic welfare¹²⁾ would be achieved within the framework of state ownership of the means of production¹³⁾. The fulfilment of these welfare conditions, it is thought, would be more easily obtained under a socialist regime than in a capitalist economy in which prices were established freely on the market, since the central price fixing agency would by-pass any monopolistic structures in the product and factor markets which would otherwise distort the competitive formation of prices.

⁵⁾ Bićanić, R. *Economic Policy in Socialist Yugoslavia*, Cambridge University Press, 1973.

⁶⁾ Horvat, B. "Yugoslav Economic Policy in the Post-war Period" in *American Economic Review*, 1971.

⁷⁾ Waterson, A. *Planning in Yugoslavia*, John Hopkins Press, Baltimore, 1962.

⁸⁾ Marschak, T. "Centralised and Decentralised Resource Allocation: the Yugoslav Laboratory", in *Quarterly Journal of Economics*, 1968.

⁹⁾ Milenkovič, D., *Plan and Market in Yugoslav Economic Thought*, Yale University Press, 1971.

¹⁰⁾ Pejovich, S., "The Banking System and the Investment Behaviour of the Yugoslav Firm", in Bornstein, M. (ed.) *Plan and Market, Economic Reform in Eastern Europe*, Yale University Press, New Haven, 1973.

¹¹⁾ Lange, O. and Taylor, F., *On the Economic Theory of Socialism*, University of Minnesota Press, Minneapolis, 1938.

¹²⁾ Here maximum welfare is defined as the Pareto Optimal condition that no person can be made better off by a change in the combination of goods and services produced or consumed subject to the constraint that the change should not make any other person worse off.

¹³⁾ For a critical exposition of neoclassical welfare theory see Dobb, M. *Welfare Economics and the Economics of Socialism, Towards a Commonsense Critique*, Cambridge University Press, Cambridge, 1969.

Production decisions would be decentralized to the level of the enterprise where a state appointed director and his managerial staff should have responsibility for the immediate production decisions. The centre would remain responsible only for the formation of prices and the establishment of the "rules of the game":

"The Central Planning Board performs the function of the market. It establishes the rules for combining factors of production and choosing the scale of output of a plant, for determining the output of an industry, for the allocation of resources, and for the parametric use of prices in accounting. Finally, it fixes the prices so as to balance the quantity supplied and demanded of each commodity. It follows that the substitution of planning for the functions of the market is quite possible and workable".¹⁴⁾

Lange and Taylor also envisage the institution of profit sharing in their system which would take the form of a "social dividend". But this dividend would be determined independently of particular occupational wage rates, so as not to interfere with labour market equilibrium through a disturbance of relative marginal valuations attached to different types of labour¹⁵⁾. They also recognize that there would be difficulties to the establishment of rates of interest on capital by this method of price formation¹⁶⁾.

More recently other descriptions of the decentralized socialist economy have been developed which focus attention upon the flow of authority between economic agents¹⁷⁾. The degree of decentralization is defined by the number of decisions which are taken at non-central levels. Marschak has developed this formulation by replacing the strategic variable of "authority flow" by one of "informational flow".¹⁸⁾ He argues that even with complete freedom for enterprises to set outputs and prices on the market, the "authority" framework for measuring the degree of decentralization is ambiguous, since the market exerts its own special authority over production decisions just as effectively as central planners exert their authority, and perhaps more so. In Marschak's formulation economic agents are stimulated into activity (production decisions, production, marketing and so on), by informational inputs of various kinds which are transmitted to the agent by an "effective message sequence", such informational inputs

¹⁴⁾ Lange, O. and Taylor, F. op. cit. 1938, p. 83.

¹⁵⁾ The social dividend was to be set on the basis of equal shares per capita or per family in order to meet the egalitarian welfare principles of the socialist economy.

¹⁶⁾ Dobb picked up this problem and suggested it was especially serious where growth and dynamic relations were considered as the equilibrium of the capital market could be unstable in such a decentralized economy. Dobb, M. "A Note on Saving and Investment in a Socialist Economy", in *Economic Journal*, 1931.

¹⁷⁾ Koopmans, T. and Montias, M. "On the Description and Comparison of Economic Systems" in Eckstein, A., (ed.), *Comparison of Economic Systems: Theoretical and Methodological Approaches*, University of California Press, pp. 27-79, 1971.

¹⁸⁾ Marschak, T. "Decentralizing the Command Economy: the Study of a Pragmatic Strategy for Reformers" in Bornstein, M., op. cit. 1973, pp. 23-63.

being administrative orders, prices and so on. Effective message sequences which are very rich in informational content are taken to be more centralized than message sequences less rich in informational content. The degree of centralization observed in an economy is then the sum of the degree of centralization of the effective message sequences. Although the model does not necessarily result in the categorization of command economies as more centralized than market economies, the implication of the argument is that this is likely to be the case, since market prices generally contain less information (since they pertain to only one or two dimensions — in the case of future prices for example) than administrative commands, or for that matter intra-enterprise communications.

Marschak's model leads to significantly different conclusions to that of Lange and Taylor in that it provides no blueprint for an optimal socialist institutional framework, but rather provides tools for measuring the degree of decentralization. It suggests that decentralization is a set of processes which can be initiated step by step, in a pragmatic manner, approaching an optimal set of institutions by a series of marginal adjustments. At each step of the reform, performance indicators (cost reduction, elimination of queues and surpluses, and so on) can be compared to the pre-reform results to see if any improvement has occurred. In essence these indicators are measures of efficiency change. Whilst Lange and Taylor propose a scheme for instantaneous transition to an efficiency maximising institutional set, Marschak proposes a step by step approach to that set reached by gradual accretions of efficiency. Both these approaches appear to show that there are welfare gains to be derived from institutional reforms of the centralized socialist economy, or from reforms which lead to a relatively less decentralized economy becoming more decentralized. Such an interpretation of their significance would, however, be mistaken. The Lange-Taylor scheme proposes that welfare and efficiency gains are associated with a particular set of institutions. As Marschak points out, that set is not necessarily more decentralized than every other conceivable set, and no criteria of "decentralization" is offered to allow conclusive judgments to be made. Marschak's scheme, whilst attempting to provide such criteria for the classification of institutional sets along a degree-of-centralization continuum, does little to demonstrate that the "more decentralized" set will offer welfare and efficiency gains when compared to the "less decentralized" set, in the absence of empirical observations of actual reform processes. Indeed, the whole point of this scheme is to provide a method by which the direction of travel may be ascertained, in a situation in which it is not known, a priori, in which direction the superior variant lies.

These schemes, then, do little to support the view that a decentralizing reform is inherently desirable, without reference to the given context, nor on the other hand do they serve to explain the causation and outcome of particular historical reform processes.

II

Many of the explanations of the process of institutional change and reform which took place in Yugoslavia between 1951 and 1953 take as their starting point, if only implicitly, theoretical frameworks similar to those schemes just described, by which a decentralized institutional set (leaving aside problems of measurement of decentralization) is in some sense, for example, in terms of efficiency of resource allocation, superior to either a centralized or a less decentralized set of institutions.

One group of these explanations is worked out in abstract terms, and treats the Yugoslav example of 1953 as a particular application of the general theory. A second group of explanations is worked out with reference to the historical data of the Yugoslav economy, applying the theory to a particular case.

The first group, then, points to the deficiencies of central planning as a mechanism of resource allocation. Bićanić for example discusses several limitations to central planning.¹⁹⁾ It is inherently unable to allocate resources in an efficient manner because prices do not reflect real costs and expenditures, and decisions have to be made on an irrational basis by the administrative orders and regulations of the planning elite.²⁰⁾ These problems are compounded by the complexity and heterogeneity of the economy, which must be guided by a comparatively simple and homogeneous plan. This complexity of the real economy leads to internal inconsistencies in the planning mechanism, such that the system does not operate efficiently even in terms of its own rationality. "Rules were not respected even by those who made them, and the personnel at the lower levels did not know whether to act in accordance with the formal laws or the informal directives".²¹⁾ In addition to problems of static allocational efficiency, dynamic efficiency is also adversely affected under a central planning framework, since the problem of personal incentives is neglected, for managers as well as for workers.²²⁾ In political terms, also, central planning is undesirable due to its excessively authoritarian nature.²³⁾ Waterston also explains the reforms on the grounds that central planning systems stifle individual initiative, and are inherently inefficient owing

¹⁹⁾ Bićanić, R., op. cit. 1973, pp. 41—43.

²⁰⁾ This argument is similar to that of L. von Mises, who regarded investment decisions under central planning, at the project level, as being dependent upon "vague estimates; they would never be based upon the foundation of and exact calculation of value". L. von Mises, "Economic Calculation in the Socialist Commonwealth" in Nove, A. & Nutt, M., op. cit. 1972, p. 79.

²¹⁾ Bićanić, R., op. cit. 1973, p. 64.

²²⁾ This argument is not convincing. Even under the strict central planning system of the U.S.S.R. in the 1930's, income differentials and managers' material incentives were stressed, see Kaser, M. "Classes and Incentives" in *Soviet Economics*, Wiedenfeld and Nicholson, London, 1970, pp. 64—75.

²³⁾ In this context it is interesting to recall Marschak's critique of the "authority" approach to the definition of the degree of centralization. In some circumstances, even the market exhibits "excessive" authoritarian tendencies. See p. 431 above.

to the tendency for enterprise managers to seek to meet the targets of the plan without reference to the costs involved.²⁴) Bjelčić, on the other hand, advances a sociological argument, namely that central planning is undesirable because the planners, and the bureaucracy associated with them, form a privileged elite, motivated by personal rather than social considerations.²⁵) However, he does not explain how this elite is motivated to liquidate itself through the process of economic reform. Finally, a historical argument suggests that central planning systems are suitable for economies which are at a relatively low stage of development, when the inter-relations of the production linkages of the economy are relatively simple and few in number. As the economy moves to a higher stage of development these inter-relations become more complex and the calculating capacity of the planning agencies becomes insufficient to deal efficiently with the extremely large number of computations required to establish the plan.²⁶) However, the threshold of complexity of the economy required to produce this result is indeterminate, and the argument cannot explain the reason for the wide variation of levels of development achieved by economies which have reformed their central planning systems, and so it cannot explain why Yugoslavia's 1953 reform occurred so far in advance of reforms of other East European economies. Milenkovič concludes, after advancing this proposition that "its relevance to Yugoslavia in the 1940's is not immediately apparent".²⁷)

It would be possible to dispute these arguments one at a time, (and some such criticisms have been outlined above), and it would also be possible to put a general counter argument to the effect that centralized planning systems are, in general, preferable to relatively decentralized ones, for example because the dynamic growth advantages outweigh the static inefficiencies.²⁸) However, the argument over the centralized-decentralized dichotomy is unsatisfactory for the more basic reason that, when it is stated in general theoretical terms it shows no reason why any actual system should change, there are no mechanisms of change implied. Many economic systems in the world are exceedingly inefficient or inappropriate, but that factor alone can never

²⁴) Waterston, A., op. cit. 1962.

²⁵) Bjelčić, B. et al. *Ekonomika Jugoslavije*, OOUR Zavod za Udžbenike, Sarajevo, 1974, p. 69.

²⁶) This difficulty as originally discussed by Barone in an article published in *Il Giornale degli Economisti*, 1908.

See Barone, E., "The Ministry of Production in the Collective State" in Nove, A., and Nuti, M., op. cit. 1972, pp. 53-74.

²⁷) Milenkovič D., op. cit. 1971. This proposition is also put forward by Hoffman: "This rigid system with its complicated administrative structure and constant political interference at various levels of the economy simply no longer meets the needs of the economy, once these countries reached a more sophisticated level of production and planning". Hoffman, G.W. *Regional Development Strategy in South-East Europe: A Comparative Analysis of Albania, Bulgaria, Greece, Romania and Yugoslavia*, Praeger, Special Studies in International Economics and Development, New York, 1972, p. 109.

²⁸) For example see Dobb, M., *Economic Growth and Planning*, Routledge and Kegan Paul, 1960.

explain, and in most cases never gives rise to, a process of change to a different system and set of institutions.

The second group of explanations of the 1953 reforms is worked out with reference to the historical data of the Yugoslav economy. Particular reasons are presented which point to the unsuitability of central planning in the special conditions of the time; central planning is not necessarily the inferior variant, per se, but in these special circumstances it is. Some have argued that the reforms were the result of ideological or theoretical considerations. As shown above, there were many reasons put forward for the theoretical inferiority of central planning after the reforms had taken place, and even before the reform period some Yugoslav theorists were criticizing Soviet-Stalinist institutional structures. The political dispute between the Soviet Union and Yugoslavia in 1948 gave these theoretical considerations an ideological dimension. The need for Yugoslav politicians to distance themselves ideologically from the political leaders of the U.S.S.R. filled the theoretical and ideological generalizations of the debate between the two planning variants with an immediate and historical significance. As Milenkovič puts it "having rejected the Soviet model the Yugoslavs sought to weave together a new political and economic system. The two major strands of the incomplete economic theory were management of enterprises by workers and decentralization of the economic system with increased reliance on market relations".²⁹) Horvat notes a similar movement in ideology.³⁰) However, the immediate consequence of the Yugoslav-Soviet split was an intensification of the central planning system in the Yugoslav economy with the inauguration of the intensive drive towards collectivization in 1948. The "ideology" argument is thus ultimately unconvincing, as additionally, it fails to explain the direction and form which the 1953 reform took.³¹

In a connected argument it has been suggested that the Soviet trade embargo, by necessitating a geographical shift in trade patterns towards the Western capitalist economies led to the necessity to introduce institutional reforms. Milenkovič advances the argument that isolation from the Soviet Union forced Yugoslavia to follow an export led growth path, and that reforms were necessary to improve the quality of exported goods.³²) It is not clear however, why Yugoslav trade policy should be different towards the Western bloc than towards the Soviet bloc. An export led growth strategy does not depend for its rationality upon the particular nature of a country's trading partners. Cheryl Payer suggests that the Western bloc exercised political leverage over the Yugoslav government on the strength of trade credits and other aid donations extended at the time, in order to force the adoption of a market-directed economy more in sympathy and keeping with the requirements of absorption of Yugoslavia into the capitalist

²⁹) Milenkovič, D., op. cit. p. 66.

³⁰) Horvat, B., op. cit., 1971.

³¹) For a more detailed discussion of the role of ideology see Johnson, A. Ross, *The Transformation of Communist Ideology, The Yugoslav Case, 1945-53*. The M.I.T. Press, London, 1973.

³²) Milenkovič, D., op. cit., p. 76.

world economy.³³) It may well be that some such pressure was applied by the visiting I. M. F. mission, although, as Payer recognizes, the evidence is scanty. However, Payer fails to show why the institutions of workers' self management, even if only introduced in an extremely rudimentary and restricted way, should be more appealing and less threatening to the political power centres of the Western bloc than the central planning system which they partly replaced.

Actual weaknesses of the performance of the central planning system seem to offer more relevant sources of evidence for the 1953 reforms. It seems clear that as reforms are accompanied by ideological and theoretical criticisms of the previous system, and perceptions on the part of reformers of the superiority of the new variant, there must be some deficiencies of the previous system to which these perceptions correspond and which the reform is intended to overcome. The difficulty is to isolate the relevant deficiencies, and in this the stated ideological causes of a reform process are often of little help.³⁴) Milenkowitch proposes that the poor performance of the growth rate of the economy in the central planning period was the causative factor in stimulating the reform. Yet a growth rate of Social Product of around 4% does not seem particularly poor compared with other developing countries in the postwar period.³⁵) However, there were special reasons, unconnected with the institutional framework, which may have limited the growth of Social Product below its full potential over the period up to 1953. These were the droughts of 1948 and 1950, the Soviet bloc trade embargo which caused economic dislocation, and the infra-structural nature of the investment projects undertaken which had, of necessity, long gestation periods. Bićanić also refers to weaknesses in the performance of the economy in the period of the first Plan and suggests that these were associated with the institutional framework.³⁶) He suggested that the nature of the investments to be made before and after the reform were different, and implies that differing institutional systems were necessary to cope with the different nature of the investments which were required. These differences centered around the distinction between capital goods industries and consumer goods industries, and the implication is that a concentra-

³³) Payer, C., *The Debt Trap: The I.M.F. and the Third World*, Penguin, Harmondsworth, 1974, Chapter 6.

³⁴) Anthony Giddens quotes Marx's remark: "Whilst in ordinary life every shopkeeper is very well able to distinguish between what somebody professes to be, and what he really is, our historians have not yet won even this trivial insight. They take every epoch at its word concerning what it says and imagines about itself". Giddens, A., *Capitalism and Modern Social Theory: An Analysis of the Writings of Marx, Durkheim and Max Weber*. Cambridge University Press, Cambridge 1974, p. 42.

³⁵) See Dubey, V. *Yugoslavia: Development With Decentralization*, John Hopkins, 1975, p. 28.

A weighted aggregate index of GNP growth prepared by the OECD shows a growth rate of 4.9% per annum for all developing countries for the years 1950—1966. Maddison, A., *Economic Progress and Policy in Developing Countries*. George Allen and Unwin, 1970, London, p. 27.

³⁶) Bićanić, R., op. cit., 1973, p. 77.

tion of investment on the former was more likely to be associated with, and facilitated by the central planning system, whilst some decentralized system was more appropriate where consumer goods industries were a more significant component of the investment programme. The reasons which may underlie this proposition are considered in more detail below. In particular Bićanić points out that by 1953 basic infrastructural investments were already laid down, the defense industries had been built and after Stalin's death in 1953 were not of so urgent a priority, and consumer demand was beginning to build up after a long period of unsatisfied pressure. The force of these arguments is lessened however by the following considerations. Firstly, the infrastructural programme, embodied in the Key Investments Programme, was not completed until 1957, secondly the defense industries were still of crucial importance between the years 1951 and 1953 when the reforms were actually taking place, and thirdly, although consumer demand was kept at a low level throughout the first Plan period, it was also dampened between 1953 and 1957 by central control of social sector wages. Bićanić advances a fourth argument. This is that, after 1953 peasant agriculture was no longer capable of forming a tax base to provide funds for industrialization. Consumer goods industries had to be given greater priority so that they could take over this role. A related argument developed in Section IV below provides support for an alternative explanation of the 1953 reforms. However, in the form presented by Bićanić it appears inadequate. This is because it fails to show the way in which the surplus from agriculture became insufficient and why the surplus from the consumer goods industries would be able to compensate for this. Finally it does not show the connection between the failure of agriculture as a tax base and the necessity of institutional transformation from the old system to the "new economic system" of the post — 1953 period.

III

Underlying all the above explanations of the 1953 reforms is the notion of the contrast between centralized and decentralized planning. Where centralized planning can be shown to exhibit serious weaknesses and failures, in terms of efficiency of resource allocation, of the magnitude of the rate of growth of Social Product, or in political or ideological effectiveness, then, these explanations suggest that a transformation of the institutional set to decentralized planning will improve matters. The difficulty with this argument is that there are many possible variants of the decentralized planning system and the existence of problems associated with a centrally planned system does not, by itself, help much in explaining why a particular decentralized system may supercede it. An associated difficulty in the case of Yugoslavia arises when the New Economic System of the post 1953 period is characterized as "decentralized". Clearly, any system which is a transformation of a centralized system must in some sense be "decentralized", but this may not be a very useful description of the New Economic System in

Yugoslavia. Extensive planning powers remained in the hands of the state agencies, even though these powers were wielded more and more by regional and local authorities, and less by the federal authorities than they had been under the first Plan. These powers included the ability to establish enterprises, influence the appointment of the enterprise director, regulate intra-enterprise income distribution and control and regulate certain prices. In addition the planning of investments was undertaken centrally within the framework of the Key Investments Programme until 1957, and through the General Investment Fund, while the Social Investment Funds planned investments through the various republican and local banking institutions. In agriculture, although peasant holdings were the main focus of New Economic System until 1957, thereafter cooperative farms received greater attention. So, within the broad framework of decentralization, the reforms of 1953 involved an institutional transformation to a system far more complex than the single term "decentralized" conveys. The phrase "a devolved planning system with a built-in, partial market mechanism"³⁷) may be more appropriate. It brings out the spatial nature of the decentralization, and also the limited nature of the autonomy actually granted to enterprises in practice. It also serves to distance the description of the 1953 reforms from the "centralized"/"decentralized" dichotomy which proved so inadequate a basis for the explanations of the 1953 reforms discussed above.

IV

A more adequate explanation of the 1953 reforms can be provided once that dichotomy is abandoned, and a wider interpretation of the possibilities of institutional innovation is permitted. The relationship between the institutional structure and the mobilization of the economic surplus can then form the basis for an explanation of the "reform" process.

Post war "dual economy" theories of economic development³⁸) have recognised that one of the more important functions of the agricultural sector in a predominantly agricultural economy is the contribution it makes to the economic surplus, upon the basis of which industrial capital accumulation may take place. This surplus is multi-dimensional, consisting of labour, raw materials, food (wage goods), and finance. These theories concentrate largely, though not exclusively, on the problem of the transfer of the labour surplus from an overpopulated agricultural sector which exhibited the classic features of underemployment. This transfer posed relatively few problems for the heavily dislocated social structure of post-war East European economies, except

³⁷) Following Brus's discussion of the Polish economy, in Brus, W., *The Economics and Politics of Socialism*, Routledge and Kegan Paul, London, 1973, Chapter II.

³⁸) See Ranis, G., and Fei, J.C.H., *Development of the Labour Surplus Economy*, Irwin, 1964; and Jorgenson, D.W., "Surplus Agricultural Labour and the Development of a Dual Economy" in *Oxford Economic Papers*, 1967.

in so far as it interacted unfavourably with construction sector bottlenecks. The problems of the housing sector are still pressing more than thirty years after the end of the war, and after thirty years of socialist economic development. More problematic, however, was the securing of a food surplus from the agricultural sector, the question of wage goods and the standard of living of the new urban working class.

Two basic methods of securing this food surplus may be isolated. The first method is compulsory delivery. Under a regime of central planning of industrial production where emphasis is laid upon the development of the capital goods sector only the minimum of consumer goods can be produced. An insufficient quantity of consumer goods is produced for the purpose of exchange against agricultural products with the peasants, and so compulsory deliveries of surplus agricultural products are required, usually on the basis of collectivization of the farms. The second method is trade between the industrial and agricultural sectors. If collectivization cannot be implemented then there is no alternative but to extract the food surplus by trade. Under these circumstances consumer goods output must be expanded, and consequently capital goods can no longer be produced at the maximum rate possible.³⁹) In such a situation central planning loses its principle *raison d'être*, and transformations to a new decentralized institutional set become eligible.

The first method of securing the food surplus was adopted in Yugoslavia under the first Plan, and was accompanied by an attempt to introduce collective farms — the peasant work cooperatives (S. R. Z.'s). However, from 1949 onwards this method of surplus extraction, (which involved collectivization, a progressive income tax upon peasant households, low prices for farm products and compulsory deliveries), had the undesirable effect of removing the incentives to increase agricultural output. The collectivization drive began to wane from 1949 onwards and after 1951 the proportion of agricultural land collectivized began to diminish. The Yugoslav Communist Party was a mass movement, its membership not confined to the urban working class, and it could not ignore the resistance of the peasantry to collectivization and compulsory delivery, as a significant section of its support was drawn from this class. It had to recognize the unpopularity and the negative output effects of its agricultural policy, and first compulsory deliveries, then collectivization were abandoned. Thus we may hypothesise that by about 1951 it was found necessary to extract the food surplus from agriculture by trade, that this demanded an expansion of consumer goods output, and that the most effective means of doing both these things was to reestablish a market for agricultural and consumer goods. Centralized industrial planning of the Stalinist type, in other words, was no longer appropriate when its counterpart policies in agriculture — collectivization and compulsory delivery — could not be established.

³⁹) See Findlay, R., *Capital Theory and Development Planning* in *Review of Economic Studies*, 1962.

Within the agricultural sector the collectives were disbanded and small scale peasant holdings were established as the cornerstone of the organizational structure by the land reform of 1953, which imposed a 10 ha. limit on landholdings. Compulsory deliveries of meat, dairy products, potatoes, hay and fat were discontinued in 1951, of grain in 1952 and of wool in 1953. The terms of trade for agricultural goods were raised as against the prices of industrial goods, to provide a price incentive for the increase of agricultural production, and the introduction of a cadastral income tax was designed to produce a similar incentive effect in the efficient utilization of land holdings.

If the agricultural food surplus was to be supplied to the industrial sector by trade, a complementary flow of consumer goods had to be established from the industrial sector. This meant on the one hand freeing the consumer goods industries from the restrictions inevitably imposed by central planning methods upon the assortment of consumer goods produced, and on the other hand increasing the share of investment undertaken by those consumer goods industries vis à vis the capital goods industries. This implies that some form of control over the direction of investment flows had to be retained by the state planning agencies, and this was one of the principle functions of the Social Investment Funds. Strict centralization of planning was no longer so appropriate when the expansion of capital goods industries no longer took precedence over the expansion of consumer goods industries. Several reasons for this may be suggested. Brus, for example, argues that centralized management is only suitable when selective targets have to be met, when a narrow range of activities are to be developed as priority activities.⁴⁰⁾ Nove suggests that centralization is only appropriate to industries with a relatively homogeneous output, heavy industries such as steel, electricity, coal and cement.⁴¹⁾ Keren proposes that centralized management is only suitable for industries with a high degree of concentration, when "information runs", and hence the costs of planning, can be kept to a low level.⁴²⁾ In any event, besides the probability that central planning is, for these reasons, less appropriate when the promotion of the capital goods industry is no longer the sole priority, the need to establish a market in consumer goods was decisive. With consumer goods production released from the planning framework, the logic and effectiveness of strict central planning of capital goods industries dwindled, and the rudimentary components of the capital goods industry Plan were wound up in 1957 with the completion of the Key Investments Programme.

In the process of transition from central planning to devolved planning, consumer goods industries were, therefore, in the forefront. By 1952 only oil, metalurgical, machine construction, building and transport industries had not been transferred from the direct control

⁴⁰⁾ Brus, W., *op. cit.* 1973.

⁴¹⁾ Nove, A. "Economic Reforms in the U.S.S.R. and Hungary: A Study in Contrasts" in *Socialist Economics*, *op. cit.* 1972, p. 335.

⁴²⁾ Keren, M., "Concentration amid Devolution in East Germany's Reforms" in Bornstein, M., (ed.) *op. cit.* 1973.

of the Federal Ministries and Directorates to the control of the republican and local authorities. Consumer goods industries' prices were freed from price controls between 1951 and 1952, though only nominally — some 70% of all prices were subject to some form of control between 1953 and 1960. With the completion of the introduction of workers' self-management in 1953 all industrial management was effectively decentralized.

Whilst the introduction of self-management in social sector enterprises ushered in a system of nominally greater autonomy for those enterprises vis à vis the planning agencies, it also marked a shift in the focus of surplus mobilization, which was now derived as much by the internal budgetary accumulation of capital from the social sector itself, as from taxation of the agricultural sector peasant economy. In this way, the Social Investment Funds were financed largely through the taxation of the enterprises of the social sector. The shift in the inter-sectoral terms of trade between 1953 and 1957 in addition to state regulation of social sector wages meant that this system of surplus extraction was carried out on the basis of low, or even falling real wages, as the prices of wage goods rose. The introduction of the institution of self-management becomes intelligible in this context. Self-management and the profit-sharing incentive system with which it was associated, compensated social sector workers for low real wages through the intangible, though real social benefit flowing from the opportunity to participate in the managerial control of their firm's activities. At the same time the right to participate in the distribution of the profits of the enterprise provided and maintained the incentive to produce, and to exercise initiative, despite the low level of real wages.

No doubt other events, political and ideological, contributed to the genesis of self-management in Yugoslavia. What we have sought to indicate here is an integrated scheme of causality at the economic level. Economic, political and ideological events can then be viewed as a set of separable causes⁴³⁾ each contributing to the determination of the processes which we wish to explain.

V

The principle conclusion which may be drawn is that there was a correspondence between the requirements of surplus mobilization and the timing and direction of the institutional reform of 1953. Within this correspondence, the hypothesis of causality may be advanced containing a number of connected elements. The failure of collectivization to produce a food surplus at acceptable political cost required the

⁴³⁾ For example, we can conceive of a situation in which the economic events alone had occurred, but the political will had not been present and the idea of self-management had not been formulated, as a result of which the reform process may not have occurred, even though the causal chain of economic events had taken place. Equally, political and ideological causes would have been insufficient without the presence of the economic events described. The concept of separable causality is discussed at length in Hicks, J. *Causality in Economics*, Blackwell, Oxford, 1979.

decentralization. This decentralization was limited in two main directions by the need to maintain (devolved) investment planning and an intersectoral price policy relatively favourable to agriculture. The resulting upward pressure on urban wages required the particular form of decentralization which was embodied in the formal institution of worker's self-management. This sequence of causality has the advantages firstly, of relating to a fairly well developed economic model, and secondly of situating self-management in the broader context of an entire reform process.

This hypothesis also helps to explain the institutional changes of later periods.⁴⁾ By 1957 the basic mechanisms of the New Economic System were well established. The Second Five Year Plan was begun in 1957 and the economy achieved remarkably high rates of economic growth during its period of operation. But just as the techniques of planning were always in a constant state of adjustment and improvement, so the institutions which carried the plan through to implementation were gradually adjusted and amended. This process was very clear through the series of single year plans which were implemented between 1953 and 1957, as the new institutions of the New Economic System were perfected, and in the yearly readjustments of the income distribution system which took place over this period. Towards the end of the 1950's, the system of general agricultural cooperatives began to be promoted, and peasants were encouraged to market their produce through these organizations, and to enter into cooperative agreements with them. In the social sector, the system of profit sharing was replaced by that of income sharing, the system of self-management was developed to give more and more autonomy to enterprises and a greater degree of control over management to the direct producers. In conjunction with this development the dual pressures for higher real wages and for higher allocations of investment funds from the S.I.F.s in the context of fairly strict price controls put pressure on the system of surplus mobilization which had been established and gave rise to inflationary pressures. The conditions for a new round of reforms began to build up. The transition from a set of institutions appropriate to what might be described as a method of budgetary mobilization of the economic surplus to a set of institutions appropriate to an inflationary mobilization of the economic surplus was carried out through the reforms of 1965.

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⁴⁾ See Bartlett, W.J., *Economic Development, Institutional Reform and Unemployment in Yugoslavia, 1945—1975*. Unpublished Ph. D. thesis, Liverpool University, 1979.

EKONOMSKI RAZVOJ I INSTITUCIONALNA REFORMA: UVOĐENJE RADNIČKOG SAMOUPRAVLJANJA U JUGOSLAVIJI

W. J. BARTLETT

Re z i m e

U svojim analizama ekonomskog razvoja, ekonomisti-klasičari (Quesnay, Smith, Ricardo, Marx) posebnu su pažnju posvećivali odnosu između ekonomskih institucija i procesa ekonomskog rasta. Središnje mesto ovog uzajamnog odnosa zauzima je odnos između institucionalne strukture i stvaranja, odnosno upotrebe, ekonomskog viška.

Za razliku od klasičnog prilaza, savremeni neoklasični pristup ovom problemu nalazi se u teoriji svojinsko-pravnih struktura. Tu je na uobičajene temelje neoklasične teorije (prinosi, tehnologija, preferencije) nadograđen parametarski institucionalni sklop, koji, svojim delovanjem na incentive strukture, menja uzajamne ekonomske odnose u modelu.

Uvođenje radničkog samoupravljanja u jugoslovensku privredu u razdoblju od 1951. do 1953. godine i kasniji niz institucionalnih reformi (1957, 1965. i 1974. godine) iziskuju dalju analizu odnosa između ekonomskog razvoja i institucionalnih oblika. Autor sugerše da klasični pristup pruža pogodan okvir za smislenu tretiranje ovog istorijskog iskustva.

U ovom se članku uvođenje radničkog samoupravljanja razmatra u sklopu celokupnog procesa reforme društvenoekonomskog sistema. U prvom odeljku razmatraju se neke relevantne teorije institucionalnih promena koje se bave razlikom između centralizovanih i decentralizovanih privreda socijalističkih zemalja. Ideje sadržane u ovim teorijama čine osnovu većine rasprava vođenih u literaturi o reformi koja je u Jugoslaviji izvršena u periodu 1951—1953. godine. Pregled te literature dat je u drugom odeljku. U trećem se odeljku govori o izvesnoj neadekvatnosti u ovim teorijama, a u četvrtom se odeljku predlaže drukčiji pristup, koji, mada usredsređen na razmatrani primer (uvođenje radničkog samoupravljanja), pruža okvir za dalju analizu reformskog procesa u Jugoslaviji u toku celog posleratnog perioda.