

THE YUGOSLAV ECONOMIC SYSTEMS AND THEIR EFFICIENCY

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1.0 INTRODUCTION

Though the Yugoslav economy serves as the one example of what is called the self-managed, participatory, labour-managed or socialist market economy its institutional setting has not been very stable. Yugoslav post-war systemic development has been therefore often divided into distinct systemic periods. The effects of systemic changes on the efficiency of the economy could be roughly established by comparing efficiency in different systemic periods. The first problem faced in such an analysis, namely to determine the systemic periods, is solved in this article in a simple way. The basis for the periodization is normative; the starting year of a period is marked by a new constitution. Such periodization can be subject to criticism: first, it brings in the notion of abrupt changes which were not such; second, some far-reaching institutional changes preceded a constitutional change, while some followed them in consecutive years. Furthermore, some economic policy changes have had a much greater impact on actual economic development than some of the systemic changes. The 1965 economic reform which was dominated by the macroeconomic policy change (Bajt, 1984) has even been considered the turning point between the »more successful« and the »less successful« period of labour management. (Horvat, 1971), (Sapir, 1980). Four periods are distinguished; the period of Soviet — type economic system (1945—1952) referred to as the period of administrative socialism, the period of the mixed administrative self-managed market economy (1953—1962), sometimes referred to as the period of decentralization which gradually led to the period of the labour-managed market economy (1963—1973), and the

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period of the »contractual« economy (1974—19..), referred to also as the period of income relations.

2.0. MAIN SYSTEMIC CHARACTERISTICS OF THE PERIODS

The basic concepts of administrative socialism are clear. The answers to the basic economic questions, namely WHAT, HOW, FOR WHOM and WHEN to produce were set by the planner. In other words, all basic economic problems such as valuation, organization of production, income distribution, savings, and investments were to be solved by centrally planned solutions. Prices were fixed and did not reflect consumers' preferences nor producers' costs. They did not influence allocation of inputs. Wages were fixed, interest rates did not exist as the price of capital. Savings were centrally determined and accumulated and investments were completely planned. There was no need for financial intermediation and financial markets. The fiscal system included all government revenues and expenditures, and all transactions related to savings, investments, and balance of payments. Enterprises were agents of the planners and obliged to fulfill their instructions.

The year 1950 can be considered the peak year of administrative socialism. It was followed by its complete and very rapid disbandment so that «by the end of 1951, the centrally planned economy belonged to history» (Horvat, 1971). After 1952, Yugoslavia started to move away step by step from centralized economic planning by reducing administrative constraints and by giving the enterprises a more independent role in decision-making.

It is this system which serves in the theory of economic systems as the one example of a socialist market economy or socialist self-managed system. While the birth of the new system can be related to the Law on Management of Government Business Enterprises and Higher Economic Associations by Workers' Collectives enacted in 1950, its basic legal and political features were explicitly defined in the Constitution Act passed in 1953. These were social ownership of the means of production, self-government of producers in the economy and of citizens in communities and other administrative units, and reliance on market mechanism as a basic mechanism for the allocation of goods and services.

Up to the early 1960s, self-management was rather limited even in a normative setting and much more so in practice, which has in Yugoslavia always diverged notably from legal doctrine. In short, two of the basic economic decisions, namely FOR WHOM and WHEN to produce remained under strict government control, while the WHAT to produce was decided by consumers, and independent enterprises were free to decide HOW to organize production and combine productive factors.

Though changes were permanently taking place in the system, two reforms can nevertheless be distinguished, which led to the mechanism of economic control being abandoned, the autonomy of economic units increased, and a phase referred to as »market socialism«

initiated. By the first, in 1961, the foreign trade system, monetary and banking system, and income distribution were radically changed. The economy, up to then virtually closed, was to be made more susceptible to the influences of the world market. Foreign trade was therefore liberalized and the system of multiple exchange rates was replaced by customs tariffs. The entire monetary and banking system was overhauled and, most important, the control of wages was discontinued.

Even more elaborate systemic changes combined with macroeconomic policy changes and designated as the Economic Reform of 1965 took place in the 1964—1967 period. They affected the investment mechanism, foreign trade system, monetary and banking system, tax system and price system. In the investment mechanism, general investment funds which had been controlled by the government at different levels were abolished, and their assets and liabilities were transferred to banks. The banking system was restructured and banks could be established and managed by groups of enterprises. The National Bank was transformed into a monetary institution. The reform of the investment system was completed by a set of tax cuts which, it was hoped, would enable a greater extent of self-financing. The turnover tax which had been levied at various rates in different sectors was replaced by a retail sales tax. Prices were restructured so as to more closely resemble world prices. The attempt at liberalization of foreign trade was repeated by reduction of tariff rates and by abolition of licensing.

In short, with the abolition of wage control and with the changes in the system of investment, all basic economic decisions were at least formally transferred to independent enterprises.

In the early 1970s, important institutional changes were introduced. They started with the constitutional amendments of 1970 and were to be the blueprint for the so-called associated labour concept of the workers' self-managed economy. Though they did not formally question the proclaimed basic elements of the system, the changes were so far-reaching that the market character of the Yugoslav economy has become questionable. The associated labour concept rejected to a considerable extent two components of the socialist market economy, the market as the basic allocative mechanism, and macroeconomic policy and indicative planning as a means of indirect regulation of economic activities. It insisted that these be substituted to the greatest extent possible by mechanisms of social compacts, self-managements agreements, and overall social planning. The changes which affected every single part of the economic system also introduced entirely new and rather awkward terminology.

3.0 THE REASONS FOR AND THE GOALS OF THE CHANGES

The above normative periodization requires an explanation of the reasons for these systemic changes. If the rather mystical »development of productive forces« is not accepted, the question is reduced to a simpler one, namely whether the reasons (and the goals) of the systemic changes were inspired predominantly by economic or by po-

litical considerations. To answer even this simplified question is, however, not easy, as can be seen from the variety of explanations for the transition from administrative to administrative market socialism, and the reasons for this change have not yet been fully explained. According to »official« statements shared by some Western scholars, it can be explained by the thinking of Yugoslav political leaders far before the break with the Soviet Union. This can hardly be proved by actual developments before or after the break. A favourable conjunction of events and circumstances (i. e. that Yugoslav National Liberation War had been largely an independent effort and that the Soviet model had been voluntarily adopted) enabled rapid rejection of the Soviet model, but there is no evidence that workers' self-management was »in the air before it was officially introduced by the government« (Gurvitch, 1966). The organization of the economy, the nationalization of practically every economic activity including typical non-capitalist forms of production, and the strong pressure for forced collectivization in agriculture after the break with the Soviet Union indicate the opposite. Bad economic results, the difficulties encountered after the break, and the need to adapt to the new environment were also important. The ideological and political rather than economic issues were, nevertheless, decisive in the search for new forms of socialism, organization and planning different from those in the USSR. The opinion that something had to be invented quickly seems to be close to the truth.

This is confirmed by articles of the period. To Boris Kidrič who dominated economic thinking and was one of the architects of economic system, the state sector was the highest form of ownership of the means of production, and planning was the fundamental law of socialist development up to 1950 (Kidrič, 1949, 1950a). However, in less than one year, state ownership became merely the first and shortest step in the socialist revolution, and the building of socialism required the transformation of state socialism into a free association of direct producers (Kidrič, 1950b). Similar statements were very soon repeated by practically all Yugoslav social scientists. The ability of both Yugoslav politicians and social scientists to reread and to reinterpret Marxism according to daily needs was established for the first but not the last time.

The reforms in the early and mid 1960s were on the other hand prompted predominantly by economic considerations and were intended to increase efficiency of the economy.

The actual reasons for the changes in the 1970s, officially embarked upon to enforce the basic elements of the system of a self-managed socialist economy are mixed: economic, social and political. Among the economic motives, the development after the 1965 reform was the most important. Namely, the enforcement of market measures combined with restrictive macroeconomic policy measures following the 1965 economic reform produced predictable though not anticipated results. The growth of the economy was slowed considerably. The social and political consequences of rapidly increasing unemployment resulting from both the long run development on the supply side and the short run slack in the demand for labour could only be alleviated

by massive exodus of workers abroad. Cost-push inflationary pressures emerging from the increased freedom of enterprises in the distribution of income resulted in inflation. The balance of trade worsened and the Yugoslav share in the world exports started to decline, though these results were offset in the balance of payments by remittances of workers abroad and flourishing tourism. In general, the economic aims of the economic reform were not realized and the reform was increasingly considered a failure and an end of the »Yugoslav economic miracle« (Sapir, 1980).

Rather poor economic performance was accompanied by an even less desirable development in the social and political domain. Social property defined as property of »each and all« meaning the free access of each and all to the existing means of production degenerated into group property (Bajt, 1980). The inequalities among individuals and among regions increased, causing social and political tensions between the republics. Furthermore, the concentration of economic power in the hands of managerial elite-technocrats (though predominantly members of the LCY*) did not only endanger workers' control in the enterprises but threatened to deprive the party bureaucracy of political control. This last point also seems the most important reason for the changes in the economic and political system. Institutional changes became inevitable if the system, and particularly the political power of the LCY and its actual control of social, political, and economic development, were to be saved. The market proved socially and politically less neutral than assumed in both the Langean theory of decentralized socialism or in the theory of the labour-managed socialism.

The new economic system was again shaped by one of the architects of the previous one, Edvard Kardelj, who dominated economic and political thinking for more than twenty years. Again there were no problems in finding its roots and explanations in Marx's teaching, and again, Yugoslav social scientists were unique in applauding its appearance. The rare doubts about its functioning and performance were pushed aside.

Through the divergence between practice and legal doctrine has been the rule rather than the exception in Yugoslavia, the breakdown of the system introduced by institutional reforms in the 1970s can hardly be questioned. Suffice it to consider the legislation which elaborated the institutions and functioning of the system. The laws regulating the behaviour of economic units in the distribution of income, and price formation, and the foreign trade regulations which were introduced after 1976 are only some of the instruments which were explicitly or implicitly abolished and replaced by new laws or administrative measures soon after their appearance. Some other laws, for example the law on planning or the law the compulsory pooling of labour and resources of commercial and manufacturing enterprises, have remained irrelevant for the actual functioning of the economy. The proclaimed social and political goals of the changes, i.e. the

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strengthening of self-management and the thrust towards distribution of income according to work done have also not been achieved.

The economic situation which had by 1980 developed into the most severe crisis in the history of Yugoslav economic and political development prompted a new systemic reform. It started as the Long-Term Programme of Economic Stabilization in 1982. The Programme which consists of a number of documents produced by groups of economists led and supervised by politicians is highly inconsistent in its approaches to different economic problems, but its main orientation is clear: the reintroduction of the market and a reduction in the number of institutions introduced by the »contractual« economy. The general applause for the Programme does not however mean that all social structures have in fact accepted it or that those parts which have not been enforced by the IMF have been readily introduced into the economic system. As the Programme retains the general characteristics of economic reforms in other socialist countries which are »not immune to the charms of the market« (Zupanov, 1984) and tries to increase economic efficiency by introducing the tools of capitalist market economies, it will most likely share the fate of economic reforms in other socialist countries; ideological obstacles and fear of the unacceptable weakening of political monopoly by the LCY will be the final and most decisive factors in determining the actual extent of the reforms and their duration. The ability to change the system and to reread Marx might again push the trade-off between ideology and adherence to political monopoly to one side in favour of economic efficiency.

4.0 THE PERFORMANCE OF SYSTEMIC PERIODS

It is beyond the scope of this paper to analyse adequately the efficiency of the Yugoslav economic system and to compare it with the efficiency of capitalist economies or socialist planned economies, or to compare properly the efficiency of different periods. The difficult part of such an analysis is to disentangle systemic from other factors such as changes in external conditions, degree of underdevelopment and market imperfections, macroeconomic policy measures etc. which affect economic efficiency in different countries or in different periods. The comparison of efficiency is therefore rather loose.

Indicators of growth, capital formation, standard of living, employment, price stability and indicators of the efficiency of factors of production, employment balance, and external balance are summarized in Table 1. A sub-period 1980—1984 has been added to the period 1974—1984, as the considerable worsening in most measurable indicators after 1979 has been the result of changes in economic policy which shifted from the internal to the external balance. The growth rates in Table 1 seem satisfactory if compared to those of developed market economies. The comparison with comparable countries, however, suggests that Yugoslav growth performance was not exceptional except for agricultural production in the 1953—1962 period which was predominantly a result of the abandonment of the previous catastrophic

policy of collectivization. The much better performance of the second period compared to the first is evident, though rapid growth of industrial production in the second period also resulted from previous huge investments in industries with high capital/output ratios and long gestation periods. This added to growth and also enabled preorientation to industries with lower capital/output ratios.

Comparison of the growth figures of the two most recent periods with those of a comparable group of countries (middle income oil importers) indicates that they are in the same general range. The average rates of GDP growth in Yugoslavia in both periods were slightly lower than in the comparison group (7.0% for the 1965—1973 and 5.6% for the 1973—1980 period), industrial production growth was in the first period slightly higher in Yugoslavia (8.6% compared to 8.2%) but lagged behind in the second (3.8% compared to 5.4%). Growth of agricultural production lagged in both periods (3.1% compared to 3.4% and 2.7% compared to 2.1%). (Source World Development Report 1985 — Statistical Appendix, 1985). The figures in the share of investments in GDP, however, suggest that the cost of growth in Yugoslavia was much higher, and indirectly that Yugoslavia, despite all institutional changes, retained the Soviet pattern of development. According to the figures of the World Development Report, the investment share in GDP in middle income oil importers was 22.0% in 1965, 24.9% in 1973, and 26.6% in 1980. The same source reports the Yugoslav figures as 30.2% for the 1965—1972 period, 33.1% for the 1973—1978 period, and 36.5%(?) for the 1979—1983 period. The data confirm the results (Bajt, 1984) according to which the growth of GDP per unit of investment in the 1960—1980 period is approximately 62% of the growth per unit of investment in comparable capitalist countries.

The changes in efficiency characteristics are presented in Graph 1 by the movements of two »great ratios« of growth: the capital/output ratio and the labour/output ratio (both for the socialist sector). Though this is an extremely simple and rough method, it suffices to indicate the turning points in efficiency and relate them loosely to institutional changes. Linear trend lines are added for each period (except for the first). Constants of the equations are the trend values of the corresponding ratios at the beginning of a systemic period, while the regression coefficients are the average yearly changes of the ratios in a systemic period. All values of the coefficients (except for the coefficient of the changes of the labour-output ratio for the most recent period) are statistically significant. One should note, however, that the periodization is normative and that the boundaries between periods were normatively rather than statistically determined. The changes in efficiency characteristics are presented in Graph 2 in an alternative way, by the simultaneous movements of the two »great-ratios« of growth: the capital/output ratio and the labour/output ratio. The shifts of the isoquants (of the production functions) represented by the combinations of labour and capital required to produce a unit of output, thus indicate the changes in the efficiency of the economy. The turning points of the shifts can again be loosely related to the systemic changes.

In the period of administrative socialism, economic growth was achieved by enormous increase of inputs; both, capital/output and labour/output ratios increased rapidly. The former kept growing up to 1956 while the latter started to stagnate and to decrease when the administrative system was abandoned. Rapid decrease of both followed in the period 1957—1962 which is the period in which Yugoslav performance was considered impressive. In the next period the capital/output ratio started to grow again while the labour/output ratio decreased. The changes in the distribution mechanism which made relatively abundant labour expensive (most taxes and contributions were levied on wages) and scarce capital a free good (with real interest rates deeply negative) seems to be the main reason for such a development. The situation worsened considerably in the period of »contractual socialism«; growth rates slowed, the capital/output ratio started to increase rapidly, and labour/output ratios stagnated and even grew after 1980. The efficiency of the economy has been decreasing, and more labour and capital has been required per unit of output. The macroeconomic performance in the period of »contractual socialism« is characterized by its division in 1980 into more and less successful subperiods. The movements of the balance of payments, however, suggest that the successfulness before 1980 was fictitious. The yearly inflows of foreign capital surpassed the increases the GNP. The Yugoslav economy would have thus stagnated for a decade if there had been no foreign capital inflow. When the possibility of development based on foreign accumulation disappeared, fictitious successfulness disappeared as well.

Economic policy has, in the past five years, succeeded in balancing domestic and disposable income predominantly by reducing the latter but »the price« for achieving external equilibrium has been high: stagnation, unemployment, inflation, and increased interregional disparities which appear to be the cornerstone of many political and social problems which Yugoslavia will have to face in the near future. The prolongation of such a policy, however, represents an economic, social and political threat to future development. There seems to exist only one way out of the present economic crisis i.e. to increase the efficiency of the economy. This can only be done by changing the framework which determines it, i.e. the economic and political system. Radical changes in the economic and political system have thus become the precondition for economic development.

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MAIN PERFORMANCE INDICATORS OF THE YUGOSLAV ECONOMY 1946—1984

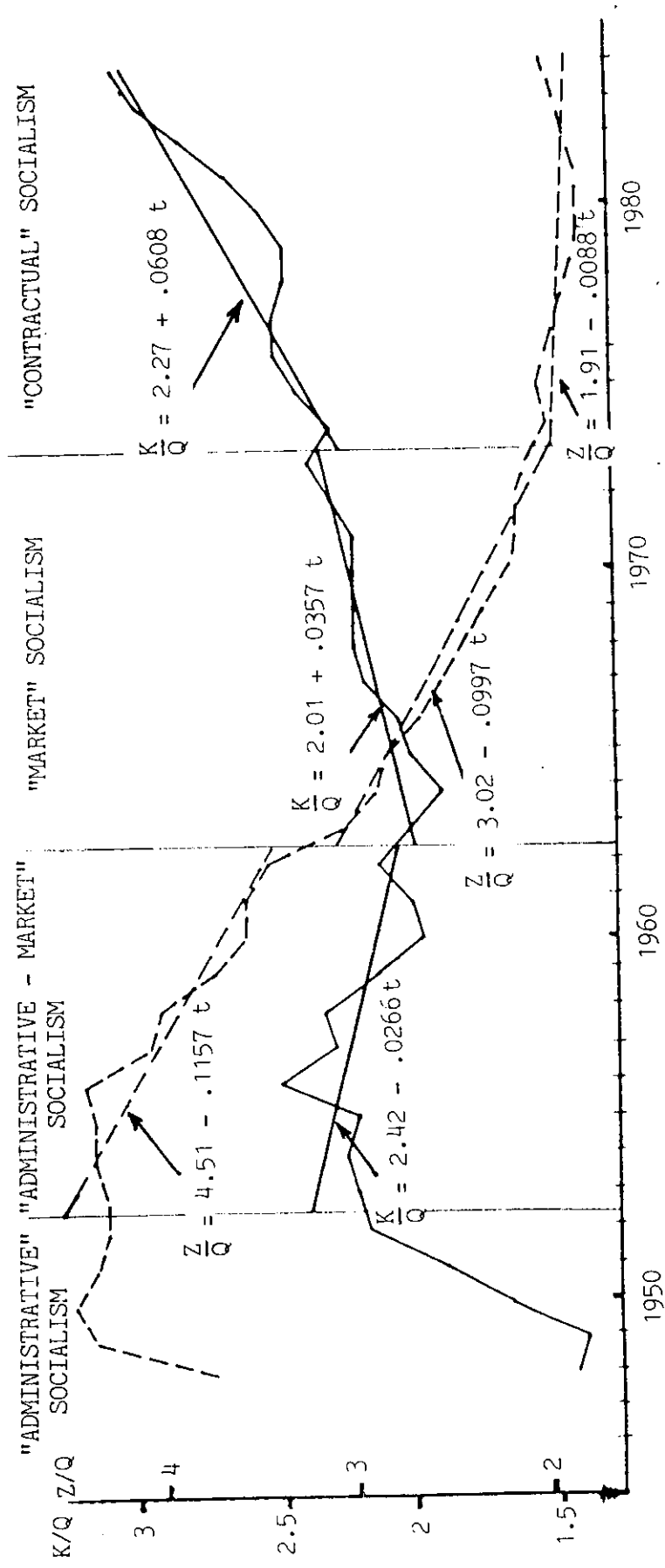
Period	1946—1952 ¹	1952—1962	1963—1973	1974—1984	1980—1984
Rates of growth of:					
Gross domestic product	2.3	8.3	6.5	3.9	2.6
Industrial production	12.9	12.2	8.6	5.4	2.7
Agricultural production	-3.1	9.2	3.1	2.1	1.6
Employment	8.3	6.8	2.4	3.6	2.4
Exports in US dollars	-3.1	12.0	14.0	13.3	10.1
Imports in US dollars	3.6	10.1	16.6	11.8	-2.0
Fixed investments		11.5	5.3	1.0	-8.3
Private consumption		6.5	6.4	2.8	-0.5
Retail sales prices		3.6	13.0	28.3	40.2
Ratios					
Investment/GDP rate		41.99	38.87	35.21	30.24
Capital/output ratio		2.28	2.23	2.64	2.82
Employment/output ratio ²		3.87	2.42	1.86	1.84
Unemployment rate		5.01	7.58	13.29	14.24
Export/import rate		64.66	69.44	63.96	74.81

Source: Statistički godišnjak, different issues.

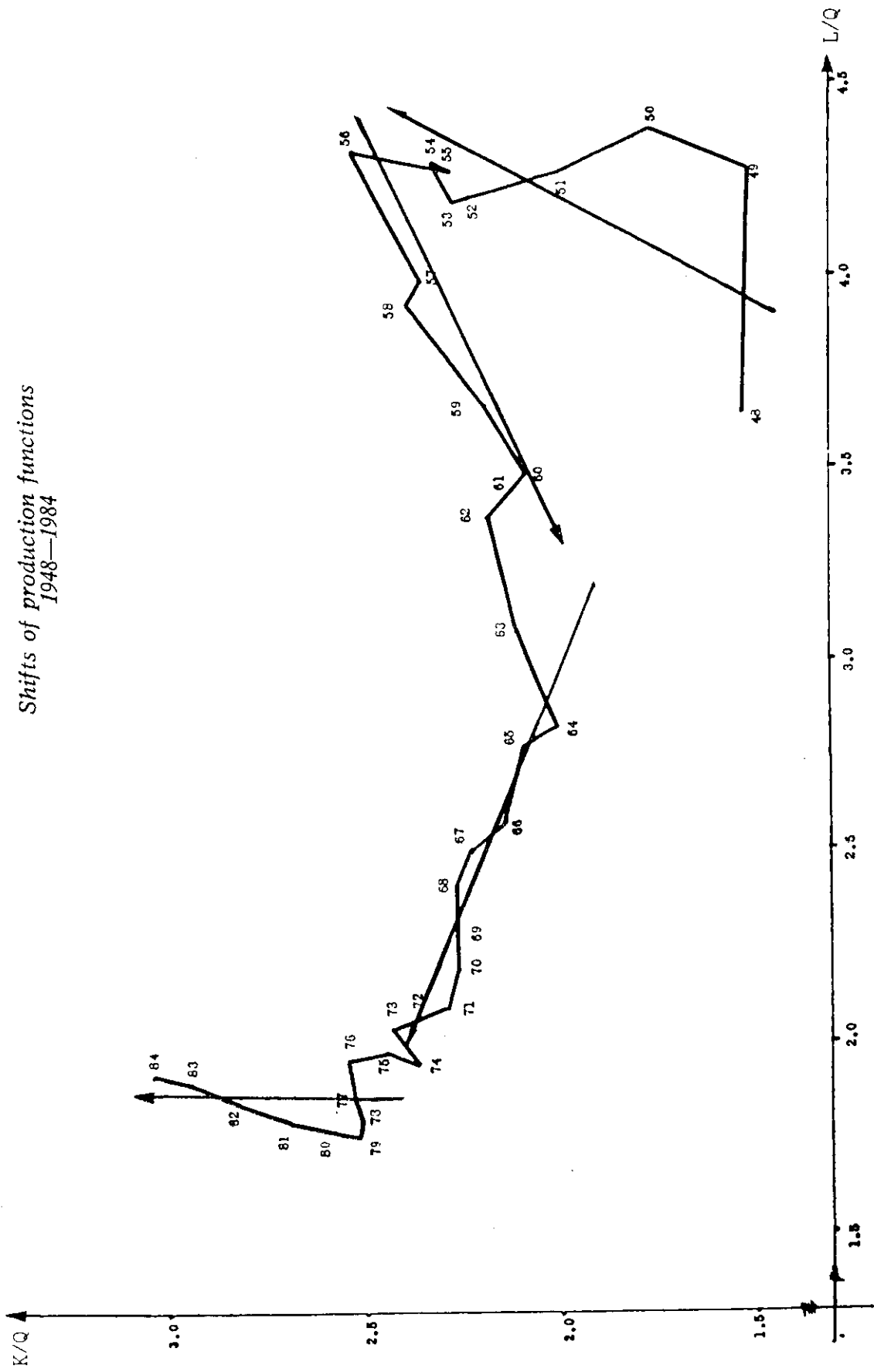
¹ Horvat, 1971.

² Number of employes per 1 million dinars in 1972 prices.

Movement of Capital/Output and Labour/Output Ratios
1948—1984



*Shifts of production functions
1948—1984*



JUGOSLOVENSKI EKONOMSKI SISTEMI I NJIHOVA EFIKASNOST

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Re z i m e

Iako jugoslovenska ekonomija predstavlja jedini primer onoga što se naziva samoupravnom, participatornom, pod upravom radnika, ili socijalističkom tržišnom ekonomijom, njen institucionalni kontekst nije bio dovoljno stabilan. Stoga se razvoj jugoslovenskog sistema često deli na jasne sistemske periode: posledice sistemskih promena na efikasnost ekonomije mogu se u opštim crtama ustanoviti putem poređenja različitih sistemskih perioda. Prvi problem sa kojim se suočavamo u ovakvoj analizi, a to je određivanje sistemskih perioda, rešava se na jednostavan način u ovom kontekstu. Osnova periodizacije je normativna; početna godina perioda označena je novim ustavnim odredbama. Ovakva periodizacija može se podvrgnuti kritici: prvo, uvođi se pojam oštrih promena, što obično nije slučaj; s druge strane, neke dalekosežne institucionalne promene prethodile su ustavnim, dok su neke usledile tek kasnije. Dalje, neke promene u ekonomskoj politici imale su mnogo veći uticaj na realni ekonomski razvoj od nekih sistemskih promena. Privredna reforma iz 1965. godine, kojom je dominirala makroekonomska promena politike, čak se smatra i prekretnicom između »uspešnijeg« i »manje uspešnog« perioda radničkog upravljanja. Mogu se razlikovati četiri perioda: razdoblje ekonomskog sistema sovjetskog tipa (1945—1952), koje se naziva periodom administrativnog socijalizma; razdoblje mešovite administrativne samoupravne tržišne ekonomije (1953—1962), koje se ponekad naziva i periodom decentralizacije, što postupno vodi ka razdoblju tržišne ekonomije radničkog samoupravljanja (1963—1973) i razdoblje »ugovorne« ekonomije (1974—19...), koje se takođe naziva i periodom dohodovnih odnosa.

U članku se analizuju osnovne sistemske karakteristike u odnosu na rešavanje osnovnih ekonomskih pitanja, razlozi za prelaz iz sistema u sistem i relativna uspešnost pojedinih sistema.