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# Yugoslavia After the Reform of 1965

By Dr Dietmar Fuchs, Brussels

Yugoslavia's economic order is based on the concept of collective ownership and the recognition, in principle, of the laws of supply and demand. The collective aspect is expressed chiefly in general outline plans. This probably constitutes the most obvious difference from Soviet-type systems which seek to increase efficiency by adding micro-economic devices, while the emphasis is placed on the central plans of the State. Yugoslavia's collective plans, on the other hand, are rather like development programmes. Although theoretically the functioning of a free market economy does not depend on the question of ownership, the "Socialist market economy" is specifically intended to show that the means of production are neither owned privately (as in the West) nor by the State (as in the Soviet-type economies). Yugoslavia's idea is a so-called collective ownership, with the members of the enterprise as a group being the owners.

In Yugoslavia the enterprise is the focal point and has the economic initiative. This implies that from the very start maximum importance has been attached to the principle of profitability at enterprise level. Individual initiative and the interests of the collective are meant to render compulsion by the State in the form of Soviet-type central planning unnecessary. This attitude might be regarded as a tangible expression of the theory and practice of Yugoslavia's own ideology.

Here are the characteristic features of Yugoslavia's economy which have appeared in all the reform measures of the past few years: emphasis and recognition of the laws of supply and demand; economic outline planning on the French rather than Soviet pattern; early transition from private to collective ownership of the means of production, and finally workers' self-administration.

## Reasons and Aims of Economic Reforms

The reason for all the reforms of the past few years was the fact that many enterprises were becoming more and more unprofitable. Labour productivity was lagging and ultimately led to a mounting balance of payments deficit. Added to this were stronger inflationary tendencies due to excessive investment, on the one hand, and higher personal incomes, on the other, which were based on the wages and profit-distribution policies of the Workers' Councils who failed to realise their economic consequences. A slow-down of economic growth followed.

Other reasons necessitating economic reforms were the discrepancies between the economic development

of the North and South of Yugoslavia; the lack of an adequate policy of industrialisation and of building up the infra-structure (roads, railways, water supply, etc.), and the increasing inflationary tendencies of the preceding years. Hence all reforms thus far aimed at removing as quickly as possible price disparities affecting the home market and export terms. The creation of efficient and strong production groupings has taken priority and is closely connected with a gradual development of the infra-structure.

All these reforms stress that free market relations must be maintained and aim at a lasting stabilisation of the Yugoslav economy, higher labour productivity and a continuing rise in production in the coming years.

## Efficiency and Profitability

In future, the banks will have the final responsibility for the best possible use of available funds because the Central Investment Fund, the scope of which has been restricted to less-developed areas<sup>1</sup>, proved incapable of guaranteeing satisfactory profitability auditing. With the banks alone deciding on investment credits, they now exercise a guidance and control of great importance.

The system of overall distribution of available means has been abolished in favour of letting individual enterprises have a say in the use of the collective's finances. Thereby it is hoped to speed up economic growth.<sup>2</sup> In this context a structural improvement of investments is of key significance. Unprofitable enterprises which had hitherto been kept going by overall financial support are to be closed and labour productivity is to be improved only where profitability calculations make capital investments also sound long-term propositions.

But the steps taken to improve the efficiency and profitability of enterprises face the Yugoslav leaders with a difficult decision regarding their future manpower policies. For redundant labour, more frequent closures of enterprises, the mounting drift of labour into the towns etc. pose ideological problems to a socialist system which tries to be humane without compulsion by the State. It is now realised that guidelines and/or recommendations are necessary for the control of the labour market. Similarly, more wage-policy guidance from the trade unions will have to be

<sup>1</sup> cf. W. Eggers, "Yugoslavia Facing New Economic Reforms", in "Osteuropa Wirtschaft", Vol. 9, Stuttgart 1964, Issue 2, p. 45.

<sup>2</sup> cf. "Problems of Self-administration in Yugoslavia" in "Wissenschaftlicher Dienst Südosteuropa", Vol. 19, Munich 1961, Issue 3, p. 37.

taken into account. The State authorities will see to it that wage rises keep within the limits of productivity increases.

One of the difficulties facing a country which tries to develop a free market economy under socialist ownership conditions is the recruitment of managerial personnel. On the one hand, it is hoped that the authority given to the director of the enterprise will limit State interference in the economy in that he now has direct control of finance and is in charge of both the operational and business sides of the firm. He also legally represents the enterprise vis-à-vis third parties. In this way the director occupies an in-between position in which he appears as the plenipotentiary of the collectively-owned enterprise vis-à-vis the State.<sup>3</sup> But the Workers' Councils have the final say in matters of principle such as wage-policy, the production plan and the distribution of enterprise profits, taking into consideration the director's recommendations.

The position of the director is comparable to that of the chairman of the board of management of a Western joint stock company with a disproportionately strong management partition and to that of the chairman of the board of directors.<sup>4</sup> But it is open to question whether the Yugoslav director's status will prove suitable in the given conditions. Moreover, men of more than average calibre will require higher pay. This is being slowly realised in industry. And as time goes on it is not impossible that income distribution will be affected by this situation. Managerial vacancies have to be filled by way of public advertisement, the appointments being made by the appropriate parish or municipal people's committee and the corresponding producers' council who may increasingly realise that managerial quality has to be paid for. So far, however, collective property has still to be regarded as untouchable.

There is also the problem of inadequate training of workers and employees. Another main factor which contributed to the economic fiasco in the pre-reform period was that profits in individual enterprises were not distributed in accordance with economic criteria. This situation could be improved by a more active policy of economic enlightenment which is so far only rudimentary.

### Liberalisation of Foreign Trade

With unprofitable operations of enterprises that lacked skilled labour and adequate technical equipment, the country was faced in 1961 with a further worsening of its balance of trade deficit.<sup>5</sup> As a result a law was passed in 1962 on the exchange of trade and services

with abroad which, by limiting the number of firms permitted to engage in foreign trade and by stricter central controls, was intended to improve the foreign exchange balance.

But it failed to produce the desired effects. The movement of prices brought a further decline in the standard of living and Yugoslavia did not become more competitive in the international market. What had to be done, therefore, was to compare Yugoslavia's labour productivity and production costs, the quality of output and technological progress ruthlessly with world standards. The drastic foreign trade reforms of July 1965 and January 1966 therefore primarily aimed at making Yugoslavia competitive in the world market. The idea was that by establishing more links with foreign markets' world standards would have strong repercussions on Yugoslavia's own productivity and encourage a rational use of available production resources.

In the past few years Yugoslavia has been trying hard to get talking to the Common Market countries. But negotiations have not progressed very fast, therefore Yugoslavia has also made moves in the direction of EFTA. It is true that at its autumn conference in Copenhagen the EFTA Ministerial Council, too, failed to come to a decision on Yugoslavia's application to join EFTA, but the country's move shows its great efforts to participate more actively in international trade.

Western Europe's large share in the country's foreign trade (43.5% in 1964) and the negative balance of payments of the preceding years made Yugoslavia decide to reform its foreign trade through a liberalisation of its foreign exchange regulations. By doing this Yugoslavia became the first Soviet bloc country associated with COMECON to expose itself to some degree to the impact of world trade. There may be deeper reasons for Yugoslavia's "going it alone", so far at any rate. One of them is its realisation that the success of economic relations with the developing countries and thus of socialism in Africa and Asia depends on the development of foreign trade with those countries. But whether Yugoslavia will succeed in using both its advantages under COMECON and the free trade with Western Europe will be seen in the GATT negotiations, which Yugoslavia has been attending as a full member since Spring 1966, and at the Kennedy Round.

Today, Yugoslavia is more than ever aware of the fact that its prosperity depends on co-operation with the West. This aim of establishing closer ties with Western economies explains Belgrade's attempts to secure, through various channels, better sales opportunities in the West.

The purpose of the foreign trade reform of 1965 therefore was to secure to the Yugoslav industry a greater share of the international market. This required fairly far-reaching liberalising measures. The system of differential foreign exchange rates was abolished and there was a unified devaluation of the dinar by two

<sup>3</sup> cf. "The Industrial Enterprises in Yugoslavia" in "Wissenschaftlicher Dienst Südosteuropa", Vol. 10, Munich 1961, Issue 1/2, p. 12 ff.

<sup>4</sup> K. Wessely "Basic Concepts and Characteristics of the Yugoslav Economic System" in "The Economic Systems in the East European Countries and the Chinese People's Republic" (publications of the "Verein für Sozialpolitik, Gesellschaft für Wirtschafts- und Sozialwissenschaften, Vol. 23 II), edited by Prof. G. Jahn, Berlin, Duncker & Humblot, 1962, p. 367.

<sup>5</sup> cf. W. Eggers, "Yugoslavia's Economy in Difficulties" in "Osteuropa Wirtschaft", Vol. 8, Stuttgart, 1963, Issue 1, p. 45. In 1960 the trade balance deficit was \$ 215 million, and in 1961 it was \$ 343 million.

fifths from 750 dinar to 1,250 dinar to the dollar. With effect from January 1st, 1966, the new dinar (100 old to one new dinar) was introduced. At the same time import duties were lowered substantially and apart from other measures, provision was made for abolishing subsidies and export premiums.<sup>6</sup>

All these measures amount to a comprehensive reshaping of foreign trade to give exports an important stimulant.<sup>7</sup> They also take better account of the present range of goods in foreign trade. Even in 1964 the share of industrial products in total exports reached 78.4%, compared with only 25% in the period from 1931 to 1939.<sup>8</sup> But only the trend in the next few years will show to what extent the disparities within the domestic price structure and also between domestic prices and world market prices will disappear after the all-round devaluation of the dinar. For the time being, efforts evidently concentrate on liberalising the foreign trade system, with the aim of adjusting it to world market prices and of safeguarding the monetary value. In assessing them it should not be overlooked that industrialisation in Yugoslavia only began twenty-five years ago. Every economic measure therefore aims at raising industrial and economic standards.<sup>9</sup> The latest foreign trade reforms may be regarded as the most drastic attempts so far in speeding up this process.

#### The Development of the Infra-Structure

The economic development of the country's separate regions has been rather varied. There are the industrialised provinces in the North where an outstanding feature is the considerable drop in the size of the farming population. In Slovenia, the richest republic of the Federation, the national income per head of population is today six times as large as in the southern parts of the country. The under-developed republics of the Federation include Bosnia and Hercegovina, Montenegro, Kosovo and Metohija as well as Macedonia.

Yugoslavia's industrial development is often impeded by the still insufficient infra-structure of the country. There has been some considerable expansion of the rail-and road systems but there are still no more than 50 kilometres of railway lines per thousand square kilometres. This is a great obstacle to industrial development, especially since for instance 80% of all lead and zinc deposits and 85% of all bauxite deposits are in the under-developed provinces.<sup>10</sup> In such conditions the development of the infra-structure

is particularly important. Only a rail connection from Belgrade via Titograd to Bar would improve the use of the new port installations in Bar.

The expansion of the road system, it is true, has been considerably speeded up and in the North and South there are now the two most important main roads. Yet there are not enough cross communications which would also take more account of the need for the raising of living standards in the under-developed regions. Regarding the infra-structure greater efforts are needed in the coming years to create more favourable conditions for industrialisation in the less developed parts of the country.

#### Results and Future Approach to Development

The most important results of the economic reform of the summer of 1965 are: the stabilisation of the economy; a steady growth of production; the rise in labour productivity; and the fact that for the first time since the war the balance of payments was squared in 1965. But the success of the reform remains dependent, on the one hand, on the division of strength between those who want it and the dogmatists, and, on the other hand, they find expression in the present and future links between Yugoslavia and the world economy.

Western observers should not overlook that in view of the latest changes the Yugoslav economic order, in the sense of a "socialist market economy", seems to deviate further from the Soviet economic system.<sup>12</sup> The events in June and July, 1966, above all also showed that Tito is serious about a success of the economic reforms. Two conclusions can be drawn from the dismissal of Mr Rankovic from his posts of Federal Vice-President and Minister of the Interior, and the appointment of Mr Koca Popovic in his place: firstly, the way is now open to the economic reformers; the dogmatists had always tried to jeopardise the principle of an economic reform in a roundabout way and by raising secondary issues. Rankovic had the almost general reputation of a dogmatist though not of a representative of Serbian national interests vis-à-vis the leaders of other Republics of the Federation. Secondly, the sequel of Rankovic's dismissal concerns the succession to the Head of State, now 74 years old; up to now Rankovic was thought to be the strongest aspirant for the succession.

Yugoslavia's economy can hardly be regarded as strictly socialist any longer. But despite the reforms all institutional forms in which the economic circulation takes place and which also justify the description of the national economy as a "socialist market economy" have remained socialist. It is a system which increasingly follows the rules of a free market economy and since the reform of 1965 has reduced the direct influence of the State on production. The principle of economic efficiency, profits, capital, productivity and profitability; they all have become more than just

<sup>6</sup> cf. "Belgrade Reforms the Economic System" in "Wissenschaftlicher Dienst Südosteuropa", Vol. 14, Munich 1965, Issue 6/7, p. 96.

<sup>7</sup> In this context some importance is to be attached to tourism. In proportion to direct exports foreign exchange earnings from tourism rose from 2.9% in 1958 to 4.6% in 1961. In 1964 they amounted to 10.3%. Cf. H. Hoffmann "Currency Resources for Industrialisation" in "Die Wirtschaft", Vol. 20, East Berlin, Issue 43 of 28. 10. 1965, p. 23;

<sup>8</sup> All figures taken from V. Murko "Policy of Foreign Trade and Balance of Payments in Yugoslavia" in "Osteuropa Wirtschaft", Vol. 10, Stuttgart, 1965, Issue 3, p. 187;

<sup>9</sup> cf. Wessely, l.c., p. 428;

<sup>10</sup> total length of the rail system is now about 12,000 kilometres;

<sup>11</sup> cf. W. Günthardt "The Under-developed Areas of Yugoslavia" in "Neue Zürcher Zeitung", No. 180 of 3. 7. 1966, p. 10.

<sup>12</sup> cf. D. Fuchs "Revisionism and Market Economy in Yugoslavia" in "Außenpolitik", Vol. 17, Freiburg, 1966, Issue 8, p. 493 ff.

well-known terms, even if some of them have not yet made a marked impact on all parts of the economy. So far it has been found impossible to decide on a complete removal of price control. And the question of relaxing foreign exchange control will only be considered in the coming years.

The fact that the emphasis is no longer put on heavy industry and that its investment share has been lowered in favour of the consumers' share in the gross national product fully conforms with the ideological emphasis on raising living standards within the system of Yugoslav socialism; and this is being done while long-term aspects are neglected. The Yugoslav brand of socialism also finds expression in a stronger emphasis on a policy of independent enterprises with-in operational self-management. But this must not conceal the fact that nationalisation has been nearly completed and that private ownership merged in collective ownership. Conditions in agriculture are an exception. There private ownership still amounts to 87 %.

The following points characterise the economic situation in Yugoslavia one year after the drastic reforms: compared with the previous year prices have again risen by 50 %; the average income is 30 to 40 % higher compared with the pre-reform period, and this is 500 to 800 new dinars, or 175 to 280 German Marks in terms of the new exchange rate. The Government is trying to stop the wave of high prices. It is also

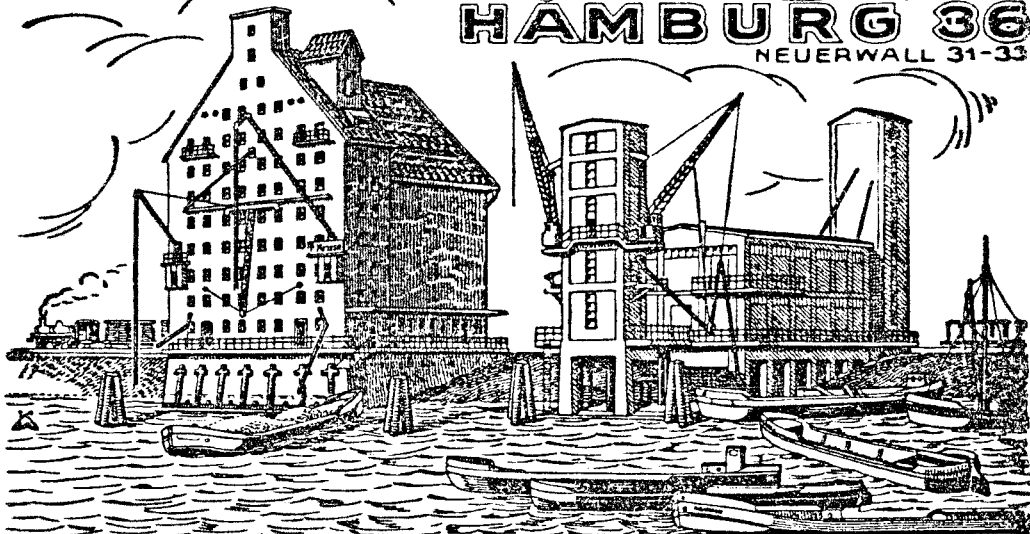
trying to take important measures to eliminate the existing rivalries between the industrialised provinces in the North-West and the under-developed areas in the South-East of the country. Aid from the World Bank (Yugoslavia has been a member since 1945) amounts to a total of 260.7 million dollars, of which an increasing sum has been used in recent years for the opening up of energy resources.

Yugoslavia's future development will show whether the national economy guided by aspects of a market economy within comprehensive planning can last on the basis of collective ownership and a system of self-management. Another question is whether the Yugoslav economic system can at least in part become a model to the whole East. The Eastern countries are following Yugoslavia's experience with interest. In any case the Yugoslav model has already proved to be a balancing factor against the division of labour within COMECON which Moscow demands.

Whether and to what extent Yugoslavia's progress towards an industrial society which functions almost completely in accordance with the laws of a market economy will have long-term repercussions on other economic systems in Eastern Europe remains to be seen. The important difference between Yugoslavia's and Western market economies is that its economy is based on collective ownership and altogether on the idea of collectivism, including the education of the individual to socialist thinking.

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