

Mulaj, Isa

**Working Paper**

## Self-management socialism compared to social market economy in transition: Are there convergent paths?

Ordnungspolitische Diskurse, No. 2009-08

**Provided in Cooperation with:**  
OrdnungsPolitisches Portal (OPO)

*Suggested Citation:* Mulaj, Isa (2009) : Self-management socialism compared to social market economy in transition: Are there convergent paths?, Ordnungspolitische Diskurse, No. 2009-08, OrdnungsPolitisches Portal (OPO), s.l.

This Version is available at:

<https://hdl.handle.net/10419/55408>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

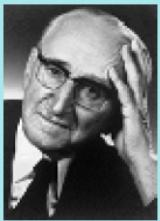
*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



# Ordnungspolitische Diskurse

## Discourses in Social Market Economy



**Isa Mulaj**

**Self-management Socialism  
Compared to Social Market  
Economy in Transition: Are  
there Convergent Paths?**

**Diskurs 2009 – 8**

**Isa Mulaj**

## **Self-management Socialism Compared to Social Market Economy in Transition: Are there Convergent Paths?**

### **Abstract**

Despite considerable and miscellaneous research in transition economics, some of its aspects have yet to evolve and come up with a more standard theory. After the initial systemic change in two versions of socialist systems – centralist in the former Soviet Union (FSU), and self-management in the former Socialist Federal Republic of Yugoslavia (SFRY), and rush towards a market-based system, setbacks in economic performance were marked by a sharp decline in living standards for the majority of population. A soar in socio-economic trauma during economic transformation from self-management to a (full) market economy along with civil wars, has mostly hit the middle class bringing them around the poverty line. Although economic recovery and growth picked up after a decade of downturn to reach the pre-transition level, the rise in income differentiation has not changed much the situation of poverty which in the former SFRY countries (except Slovenia) remains widespread, whereas it has made a tiny minority better-off, namely private entrepreneurs, politicians and professionals. Yet, this polarisation may be natural after ownership transformation and privatisation in the short to medium run. But among majority who slide towards poverty, there were, and still are, nostalgic attitudes about economic welfare in the previous system. The pressure for more socially-oriented economic reforms has mainly come from this group, though policy makers too, were aware that this approach which is necessary to fix structural-adjustment problems, is more likely to be successful at aggregate level for sustainable and long term development, *ceteris paribus*. By looking back at the previous system and exploring current social and economic reforms in the former SFRY, this paper aims at investigating common points and theoretical convergences between self-management socialism and social market economy (SMEC) in line with the challenge of economic development.

### **Keywords:**

SFRY, self-management socialism, transition, social market economy, development.

Isa Mulaj, Institute for Economic Policy Research and Analyses, Garibaldi St. H5/9, 10000 Pristina, Republic of Kosovo, E-mail: [Isa.Mulaj@gmail.com](mailto:Isa.Mulaj@gmail.com)

**Isa Mulaj**

## **Self-management Socialism Compared to Social Market Economy in Transition: Are there Convergent Paths?**

### **Introduction**

Capitalism has won the battle against the Communism but has the first won the battle within its own versions? Recent global financial crisis coming from the United States and spreading to Europe and elsewhere with the fear of leading to a worldwide economic recession, has exploded the interests of various scholars and ordinary citizens, let alone economists, to know something or as much as they can about different economic systems and their alternatives. Adam Smith's view of free market economy as everlasting system for humanity, and the critique of Karl Marx that capitalism does not have where to go except to its death, today appear as claims in between where there are alternatives.

The rise of the FSU as a socialist country after World War II (WWII) as a great power, had pushed many governments in many capitalist countries to nationalise some industries and increase the role of the state in the economy. For some time, many people and communist governments perhaps, were convinced that capitalism may make the way to socialism and not the other way around. Socialism was built on the basis of critical view of capitalism – the Marxist approach. Capitalism gained reputation for ruthless exploitation of the workers, which was very true when Marx was criticising it. However, capitalism was not a static system and evolved by improving the working and living conditions of the workers substantially. The fear that people may aspire and be committed to fight for socialist model, required that capitalism should treat the workers more humanly. The fight for more rights and democracy were found in the initial phase of capitalist development as the English Civil War (1642-1651 and 1648–1649) and American Civil War (1861–1865). Apart from struggles for better treatment in

both systems – capitalism and socialism – alternative models were put in place by not changing the ideology or substance. One of them is the model of SMEC combining market and competition with active role of the state as a regulator without the need to evolve or become socialist; the other is self-management socialism with market in operation and indicative planning by the state which remains socialist or communist.

Lack of a theory on transition from centrally planned and market socialism to an open market economy has generally been blamed as one of the main causes leading to many undesirable surprises in the last decade of the 20<sup>th</sup> century. Broadly summarising, with some exceptions, common unexpected failures involved: violent break ups of some countries and the establishment of new states in the FSU, SFRY<sup>1</sup> (former Czechoslovakia split peacefully), sharp decline in the living standards as a result of the fall in output, job cuts through restructuring and rising unemployment, high human cost of transition (the rise or organised crime, prostitution, death rates, fall in marriage and fertility rates), and many more.

Many communist countries facing political and economic disorganisation in the 1990s were not quite aware how difficult transition or the road ahead was. Przeworski (1991) asserted that the change which was about to occur through economic reforms and resource reallocation will be painful for majority and beneficial for few, so taken as a whole, countries at national level will face deteriorated economic performance and recession for some time. By the same token, Hellman (1998) later would argue and admit that high social costs in the early transition has made the majority losers, and the few who benefited were actually those who initiated the reforms. It was this incidence of polarisation and unhappiness demanding either better model, or the reforms to be more socially-oriented. The SMEC is one of the models fitting in the requirements towards this aim.

---

<sup>1</sup> Yugoslavia adopted this name from 1963 until 1991 when it disintegrated. From 1943 to 1946 it was known as Democratic Federal Yugoslavia, then from 1946 to 1963 it became Federal People's Republic of Yugoslavia. All in common, it is about Communist Yugoslavia.

Since SMEC is a very broad concept and a sophisticated model, this paper discusses only some of its core objectives and phenomena that are more important, in particular those elements that can be either compared to market socialism or, to the policies in place in the successor states of the former Yugoslavia. Section one discusses theories of evolution and transformation of economic systems with a specific reference to centralist and self-management socialism. The first model was imposed by the FSU in Central and Eastern European (CEE) countries, introduced endogenously in China and Cuba, and supported by the FSU in Vietnam and North Korea. In communist Yugoslavia, the latter socialist model (self-management) was endogenously developed and became much different from socialism elsewhere in the world. The section provides the main reasons and causes that led to this unique economic model. Section two looks at what was specific to self-management socialism and compares its features with major concepts of SMEC. It then continues with a subsection to find possible convergent and divergent points between the two models. Development disparities between the regions of the SFRY were huge and they appear to have deepened in the course of transition. This is can be found in section three that refers to some figures measuring the level of development such as, GDP per capita, Gini Coefficient, unemployment and poverty presented in Appendix to this Paper, and which in the section are associated by some theoretical discussion. The discussion in section four tries to find and justify what would be an appropriate economic model for the successor states of the former Yugoslavia in the near future and medium term. In this respect, the focus is in SMEC. Given that this model is at a nascent phase and not officially enforced, conclusions that are drawn in section five leave some questions for further discussion on this topic.

## **1. Theoretical background on transformation and/or evolution of economic systems**

If in the introduction part the lack of comprehensive theories on transition or transformation of economic systems was superficially referred to, this section

explores the matter in more details. While this vacuum in theory is largely justified, there existed models in operation where former socialist economies wanted to go, which mostly turned out to be the model based on the Washington Consensus. Perhaps what has been missing, with few exceptions, is the explanation about the emergence of this lack of a theory on transition. Taking a look at the past, some attempts can be found in trying to generate such theories, which may be a good lesson to study the importance of evolution, transition and transformation of existing systems into other ones, or even quite new. It is obvious that in the second case – quite new system(s) – the point is not related to any prophecy or something fictional, but to establish reasonable theories for which there is a consensus that they were missing during transition from communism to a market economy.

Going back to the 1930s, in the former SU as a pioneer country of socialist system, the main proponents of more liberal model or market socialism were executed and their writings banned. Against the attempts proposing to incorporate market elements in the Chinese socialism which then was similar to that of the former SU (1949-1970), the Communist Party had reacted by interning and marginalising the advocates of those ideas to the countryside. Their writings remained outside the scope of the government's determination and were never taken into consideration (Nolan, 1995:45). Thus the core reason why transition from communism to a market economy in the late 1980s did not have elaborated and comprehensive theories, was because the Party prosecuted those who had the knowledge or were able to present alternatives to the communism in force, therefore those theorists were prosecuted as counter revolutionaries.

What had failed in the SU and China eventually made the way through to functioning in the former SFRY as self-management or market socialism. It remains ambiguous whether the Yugoslav government headed by differently named communist party (the League of Communists of Yugoslavia – LCY) would have had tolerated theories and advocates of a different system in the aftermath of WWII, where her model was a copy from the SU. In fact, it was the LCY itself that

came out with the ideas to introduce market elements and “socialist market economy” model. The evidence available suggests that this by no means was any theoretical wisdom of the Yugoslav communists, but was imposed unavoidably in specific historical circumstances, and was a result of one or more causes leading to a particular alternative development.

A considerable number of authors believe that the expulsion of Yugoslavia from the Cominform<sup>2</sup> in 1948, had a crucial impact on Yugoslavia embarking on a separate road and speeding up the decentralisation process.<sup>3</sup> Once Yugoslavia was excluded from the Cominform and denounced as a traitor, the Soviet Union and the Eastern block imposed economic blockade against her. Yugoslavia thus found itself isolated from the East and in increasing need of cooperation with the West. It became obvious that the Soviet type socialism could no longer be maintained as the Eastern block was bringing no benefits but blackmails to accept subordination which Yugoslavia had rejected. This corresponded with the period in which the central planning system was gradually dismantled (1948-1952), though some decentralised planning remained. Just on the way of implementing the differentiated socialist model, Kardelj and Djilas (1951) were warning that socialism at that time must never be considered as a static model.<sup>4</sup> The authors recognised the socialist model in the FSU which SFRY initially copied, as a step forward compared to capitalism, but in “due time” blamed it for becoming an impediment for further progress, therefore maintained that socialism has to evolve. Once the new version of socialism was adopted without knowing how it would

---

<sup>2</sup> The Cominform (Communist Information Bureau) was an organisation established in 1947 acting as a tool of Soviet foreign policy with the mission to coordinate actions and encourage unity between communist parties under Soviet direction.

<sup>3</sup> See e.g., Djilas (1951), Kardelj and Djilas (1951), Singleton and Carter (1982), Prout (1985), McFarlane (1988), Lydall (1984), Dyker (1990). A detailed discussion of the dispute between Yugoslavia and the Soviet Union, in particular the expulsion of Yugoslavia from Cominform can be found in Clissold (1973). As Clissold shows, in 1948 Stalin complained to the Yugoslav president Josip Broz Tito of the anti-Soviet atmosphere in Yugoslavia and shortcomings of the CPY. The Soviet Union had called on the CPY to replace its leaders. CPY rejected those charges and declared its solidarity with Tito. The dispute was aggravated and turned to the threat of an armed invasion in 1949, but Tito made it clear that Yugoslavia would resist any attack.

<sup>4</sup> Kardelj (1948) was already trying to justify an alternative way of socialism to FSU when he delivered the speech to the Peoples’ Assembly of the SFRY on 25 April 1948, where he talked about *Weaknesses and Imperfections of Building up our [Yugoslav] Economy*.



operate and the likelihood of its performance, Kardelj (1954) casted the main theoretical basis of this socialist establishment for the state and the economy.

It evolved in SFRY by reinterpreting the Marxist concepts to which the communists were very loyal, and made their socialist version more market oriented, self-managed and allowed greater scope of private property (Lichtheim, 1969). Lydall (1984) maintains that the Yugoslav communists were not socialists at heart but even Stalinists. Their fear was that by giving up socialism, which they were closer than ever after the split with SU, would mean losing the power which they were not prepared to do so. Despite introducing a special and unique version of socialism, the Yugoslav communists were not prepared to move further in allowing the system to evolve beyond socialist ideology. This can be proven with the case of Milovan Djilas who was one of the main and closest allies of Josip Broz Tito (president of the LCY and of the SFRY) and key player in the LCY. Djilas was also the main architect of ideological split with Stalin, had started to write against Soviet hegemonic tendencies over Yugoslavia appeared as early as in the first days of liberation. He and many top Yugoslav communists were not happy how socialism was implemented in many countries where the working class did not have the power in its hands (Djilas, 1946). The pressure aimed at subordinating Yugoslavia by the SU led to Yugoslav leaders advocating that each country should develop according to its own will and conditions (Djilas, 1951).<sup>5</sup> As there was no any elaborated theory available for self-management socialism, Djilas later declared that his idea of “factories to the workers” had accidentally come to his mind after rereading the *Capital* of Karl Marx and discussing with Boris Kidrič in a car park.<sup>6</sup> Before publishing his book *The New Class* in 1957, he was dismissed from the

---

<sup>5</sup> As already stated, the Yugoslav leaders were not the first not to agree or oppose the bureaucratic reality of Soviet socialism. We find such a criticism much earlier even among Soviet rulers such as Trotsky, architect and the leader of the Red Army from 1918 to 1925. Trotsky (1937 [1973]) stood for *permanent revolution* on international perspective of socialism and opposed Stalin’s *socialism in one country* (in the Soviet Union). Lenin had warned that eventual coming to power of Stalin would change the direction of the revolution because, he saw Stalin as vicious and violent. The degeneration of socialism which was taking place under the Stalinist bureaucracy was described by Trotsky as the *revolution betrayed*.

<sup>6</sup> The famous slogan “factories to the workers” that Djilas explored in his 1957 book *The New Class: An Analysis of the Communist System*, had become the corner stone of theoretical and practical differentiation of Yugoslav self-management socialism from centralist system in the FSU.

CPY (in 1954), arrested and sentenced to nine years in prison (on 1956) on charges for demanding more democracy, pushing harder in favour of market-oriented reforms, and supporting the 1956 Hungarian Revolution. This is a similar case with “counter revolutionaries” in the FSU and China, but his writings were neither banned nor implemented.

Since its introduction in the early 1950s, the system of market socialism remained essentially unchanged till the initiation of market economy reforms in the late 1980s, although it underwent four important changes. The main institutional changes and phases of the development of Yugoslav self-management were: (i) the period of centrally planned economy (1945-52) that was similar to the Soviet model of socialism; (ii) the introduction of self-management (1952-65), where the process of decision-making was gradually decentralised; (iii) the period of self-managed market socialism (1965-1974) when market mechanisms were utilised in as many areas as possible, focusing on the activities of the SOEs operating in the market; and (iv) the system of ‘free associated labour’ (1974-1988), or ‘contractual socialism’ (Estrin and Petrin, 1991).

Like many communist countries, Yugoslavia did not have any theory of transition when the time of giving up its market socialism to (full)market economy came. One attempt to generate and establish theories of transformation and transition of this economic system failed or remained just where it started. Since market socialism was already market oriented, and leaving aside the political disorganisation and disintegration of the SFRY during the 1990s, the question is: can this be considered transition, transformation, or evolution of the system depending on historical stages? To many citizens in the former SFRY, the sudden collapse of self-management socialism did not come from economic causes as it did from the civil wars and disintegration of the country. The question on the lack of a consensus whether economic transformations are planned and organised or they happen in a spontaneous way, and what the impact of externalities in making them so (organised or spontaneous), was raised by Seliger (2002). He, among others, challenges the view and questions if economic transformations in CEE that often

are used synonymous with *transition*, should be called as such or *evolutions*. In case of transformation, the starting point A and ending point B is known, sometimes in approximately timely manner, whereas in transition the end point is hard to be determined. This claim is relevant to former communist countries whose point A or beginning of transition is known, but there is no a consensus as when the point B is or can be reached, or is this transition or evolution? It is known that that there is a light in the tunnel or point B. However, how long it will take, with what costs and challenges to get there, has been a difficult task to anticipate or measure than expected. This is because transformation cannot be seen as an isolated experiment; its meaning is broader involving many society sectors and institutional development. Likewise, self-management socialism evolved during its lifetime. Uvalic (1992) argues that whatever changes it might have undergone, the system could not be associated with transformation until one party political system and social ownership were given up. It also did not mean that emergence of a multi-party system and the privatisation of social ownership were transformations because both politics and the economy had to evolve. Such an ambiguity between evolution, transition and transformation brings us back to the discussion of theories on convergence of economic models developed by Tinbergen (1961), from which can be learned a lesson how to restrain transition from spontaneity and increase the role of the state in the economy but with a different approach than in the previous system.

## **2. Social market economy and self-management socialism concepts compared**

The concept of SMEC originated in West Germany (then Federal Republic of Germany) from where it has taken the name as Soziale Marktwirtschaft in German language. Germany's post WWII reconstruction and leading economic development in Europe – the Wirtschaftswunder (the economic miracle) – is attributed to this model. It is a model in which the state plays active role through redistribution of incomes and in the labour market in trying to control rent-seeking activities and behaviour of interests groups who might exploit others. The model is

compulsory enforced by constitution – operated by the government in a market economy (Whitt, 2002). A similar or the same model had been introduced by and is popular in two other German speaking countries (Austria and Switzerland), Western and Northern Europe. The popularity has made it to see some of its forms included in the European Union (EU) Constitution to nearly become the EU's standard economic model. Joerges and Rödl (2004) called it the “Europe's Social Model”.

The emergence of recent financial crisis in Anglo-American model of a market economy may suggest that *Markwirtschaft* is a better economic model or an alternative to it. This view is not shared Seliger and Wrobel (2007) who argue that this *Ordnungspolitik* (economic order policy) of the SMEC is in serious crisis and perhaps needs to be substantially reformed to lower the burden of welfare states in favour of making business more competitive.<sup>7</sup> Clapham (2007) on the other hand, could not support the claim of Joerges and Rodl for EU's standard economic model, because, that is to depend largely on EU member states how they institutionalise, finance and reform their own social security systems. Then a possible convergence between them can be considered, included in the EU's Constitution to be called the “Europe's Social Model”. Such an attitude on SMEC is a historical reminder and lesson that was missing in terms of the lack of theories on transition from communism to a market economy – that alternative views and theories should be in place despite that the existing system is working well compared to others. The theories, which do not necessarily imply to be implemented immediately in the present system, at least should exist as theories, so the countries may have a roadmap upon unexpected systemic changes and do

---

<sup>7</sup> In regard to this reference and relevant to the countries under consideration in this paper, Germany's social welfare burden for nearly two last decades has included a large number of asylum seekers and refugees from the former SFRY and her successor states. Based on the discussion of the Author of this paper with a number of refugees and asylums during the 1990s in Germany, many of them preferred to receive social assistance than get a job, because, as they stated, “once you get the job you have to pay a lot of taxes and contributions, thus at the end of the day you find how costly is to be employed compared to being unemployed but receiving social assistance”. While this is true for the amount of money the persons received from social scheme, being employed has many benefits: first, it facilitates social burden of the government; second; the employed contribute to the state budget; and third, taking a job means getting work experience which may be used in the labour market for future employment.

not face economic downturns like transition countries did in the 1990s where, lack of theories on transition was very much blamed for that cause.

SMEC is a very broad concept and model as it was socialist economic system. For the relevance of this Paper, only basic concepts will be discussed and compared between SMEC and self-management socialism. Some of the basic pillars of the first (SMEC), are (Esderts, 2003; Hase *et al.*, 2008):

- A constitutional economic model. The state outlines and the concept of SMEC and makes it compulsory.
- Active role of the state in a market economy. The state is the regulator of economic order to make sure that rules of the game are obeyed, and it protects the players from discrimination or rent-seeking behaviour;
- Economic planning at national level. Almost no planning except some development strategies and government policies just to give some orientation on development;
- The principle of free choices and competition. All economic activities are organised in the market on supply and demand basis which determine the price of products and services. The market signals what products and services should be offered;
- In relation to previous pillar, free entry and exit for the firms is guaranteed. The state only plays the role or intervenes in cases where there are market failures;
- International trade. Companies are allowed to import and export whatever goods in unlimited quantities pursuant to the regulations of the state. They are also free to enter into business agreements with other companies throughout the world, transfer their capital abroad and allow foreigners to buy their property at home;
- Decision makings at micro level. Employers do not exploit the workers or forcing them to work long hours and whatever the employer wants, except those works and working hours envisaged by the rule of law. Enterprises

- are run by the managers but the workers are entitled to establish the *works' council* and have their say in company's affairs and decision makings;
- Property rights. The model is based on private property which is guaranteed and not restrictions to its size of possession apply. Privatisation of public companies comes into consideration only when competition is secured in order to avoid monopolies and price discriminations;
  - Income distribution. The state plays an indirect role in distribution or redistributes incomes through taxes it collects from businesses to the rest of population. To make this policy work efficiently, SMEC imposes more and higher taxes than, let us say new liberal economy who place more emphasis on efficiency of business with lower taxes but generating sharp differences in income inequality;
  - Health insurance. A large proportion of German population belongs to Health Insurance Scheme, whereas employees and workers should be members and pay for it from monthly earnings;
  - Housing policy. Privately owned with the market for housing. Transactions (buying and selling) allowed. Credits from the banks for apartments and houses;
  - Education and research policy. Providing equal opportunities for education and research for all through scholarships and foundations. Educated and trained people are free to compete with their skills in the labour market regardless who might have financed their studies.

The history of self-management socialism is already discussed in section one of this paper. Its major pillars upon which it operated were (Jugoslovenski Pregled, 1990):

- A constitutional economic model. The 1974 Constitution of the former SFRY contains around 55 pages to regulate the self-management, Chapter I - The Socio-Economic System (pages 30-65) and Chapter II – The Foundations of the Socio-Political System (pages 65-84);

- The state played active role in the economy. The state was in charge to control rent-seeking behaviour of managers and employees in socially-owned enterprises, but did not order enterprises what to produce, how and for whom;
- Indicative or bottom-up planning. Planning was not *condition sine qua non* like in centralist socialism. Plans were mandatory at enterprise level which enterprises prepared for themselves. The state then prepared an overall planning or strategy for development of the country and harmonised it with the plans of municipalities and federal units;
- Market and competition. There was a market and competition in self-management, but only within the country, thus making many companies in monopoly and oligopoly position.
- Very limited entries and exit. Bankruptcies very rarely applied. Most entries came from existing enterprises;
- International trade. Protectionism applied. Companies could carry works and do business in foreign countries. Abundance (surplus) of products at home was encouraged for export; export of other goods that did not meet the demand at home was restricted or prohibited to avoid shortages. For goods that it did not have the capacities to produce at a needed quantity and quality to the market requirements, it allowed imports to avoid shortages;
- Decision makings at micro level. In theory, the *workers' council* was the central management organ in companies of the self-management socialism. This organ was in charge of almost everything starting from, election of the workers' representatives in the management board, to election and dismissal of the director general of the company by votes in the general assembly of the workers;
- Property rights. Social ownership. Enterprises were socially-owned and managed by the workers. The workers could use socially-owned assets to enhance the value of the enterprises and increase their own salaries and

welfare depending on the success or performance of business activity, but were prohibited to sell socially-owned assets;

- Income distribution. The workers were supposed to make the decision on the level of their incomes, i.e. they decided how higher their own salaries should be. Given this incentive, the state imposed restrictions to invest a proportion of the company's profit, because the workers would always prefer to distribute that profit on their account as salaries or incomes rather than invest;
- Health insurance and medical care. This sector was state-owned and free not only to the workers, but also to the citizens. Companies paid contributions for health insurance. The workers and the citizens were required to register with health institutions;
- Housing policy. All block of apartments in which employees of economic sectors resided, were in social ownership. They were mostly build or contracted by socially-owned enterprises (SOEs) which allocated funds for such purposes. Other apartments in which employees of non-economic resided (e.g. doctors, teachers, sportsmen, actors, journalists) were also socially-owned. The residents could partially or wholly rent their apartments to others and generate incomes, but were prohibited to sell them;
- Education and research policy. Education was free. For graduate and postgraduate education, the state provided funding opportunities for those who could not afford costs and had prerequisites to obtain skills.

Before jumping to the forthcoming sub-section where the concepts of SMEC and self-management will be rejoined to find their convergences and divergences, it is important to note some aspects of self-management in practice. The system in essence meant that the workers were supposed, and they truly felt, to be the only rulers of SOEs. And they were not always the rulers; the LCY which was decentralised into eight LCYs (one per republic and/or autonomous province) exercised a significant role and active interference in the business of SOEs, mainly through managers or directors general.



The first SOEs were established on the basis of confiscation and nationalisation of private property after WWII. This process was enforced by the adoption the Law on Confiscation of the Property of Enemies and their Collaborators (Knežević, 1975). These groups of enterprises constituted the material basis of centralist socialism in Yugoslavia. With the introduction of self-management, state ownership of the bulk of enterprises was transformed to social ownership in the first phase of decentralisation in the early 1950s. The second method of establishing SOEs was provided through new entries or firms mostly established by: (i) local government (ii) central government; (iii) groups of workers; (iv) existing SOEs. The most common form of entry was through existing firms. Normally, the parent firm first established a daughter firm with identical or related activities (Vanek, 1970). Another method of establishing a new firm was by a group of citizens, and self-managed community of interest (SMCI).<sup>8</sup> Bankruptcy in Yugoslavia could come into effect only when some adjustment in the national demand was necessary. In reality, SOEs were almost never allowed to go bankrupt. State subsidies or arrangement by other organisations rescued firms in financial difficulties. In case of bankruptcy, assets were sold and the proceeds from the sale went to the account of the persons or institutions that established the enterprise in the first place.

## **2.1 Common and divergent points between self-management, social market economy and other systems**

Many readers would question the existence of this part of the paper given the discussion in previous section. The purpose here is not only to find what SMEC and self-management have in common or in contrast, but to bring additional evidence in a matrix of comparison the features of other economic model such as centralist socialism, new liberal or Anglo-American model, and concepts from a

---

<sup>8</sup> SMCI were formed by working people or their self-managing organisations and communities, to satisfy the workers' personal and common needs and interests. The workers paid contributions from their personal incomes and from incomes of Organisations of Associated Labour (OAL) to raise funds of SMCI. Such funds could be used to satisfy the following needs: education, science, culture, health, social security and pension, social welfare, housing, transport, and collective consumption (Articles 51-55 of the 1974 Constitution of former Yugoslavia).

diversified experience transition economies by referring to those phenomena that more acceptable as general, namely from successor states of the former Yugoslavia. In the Table below, the first column lists economic categories. The rows indicate their description or meaning in different in different economic models. The columns for SMEC and self-management are market with italic bold as these two are the focus in this paper. Signs that appear in the last column are explained underneath the Table. Most categories compared are either partially convergent or divergent. Few others are convergent and divergent, including those that were/are unique, e.g. the *Workers' Council* in self-management and the *Works' Council* in SMEC are classified as partially divergent. A similar case applies when classifying the status of market and competition which appears to be close to each other in operation but have differences. The market in self-management was characterised by some inefficiencies as a result of controlled demand, less product differentiation, and little competition from outside. While under capitalism and SMEC the market signals to producers which goods should be produced, under self-management producers determined what products consumers could buy. In spite of allowing greater size and scope of private property, the essence of self-management is in social property – a unique regime of property rights. Because social ownership is very different from dominant private ownership in capitalist, the status of self-management socialism vs. SMEC is wholly divergent.

**Table 1: Matrix of economic categories and their description in different economic models**

Categories	Socialism		Capitalism		Transition economics/ transition experience	SMEC vs. self-management
	Centrally planned	<i>Self-managed/market socialism</i>	New liberal/Anglo-American model	<i>Social market economy/Soziale Marktwirtschaft</i>		
Planning at national level	Mandatory. From the centre down to enterprise	<b>Indicative. Bottom-up planning</b>	No planning. Governments' development strategies and policies	<b>Indicative or Governments' development strategies and policies</b>	No planning. Governments' policies as a substitute	→•←
Property rights/means of production	State owned	<b>Socially owned Small size of private property. 90% of agricultural land in private ownership</b>	Privately owned	<b>Privately owned</b>	Privately owned	←•→
Restrictions to commercial private property	Severe. No commercial property. No private businesses except self-employment	<b>Small private businesses allowed. Up to 10 employees and 15 (later 30) hectares of land in private possession</b>	No restrictions	<b>No restrictions. Tendencies for monopolies controlled</b>	No restrictions	←•
Publicly-owned companies	Managed by the state authorities	<b>Managed by municipal authorities (with few exceptions for companies of strategic interest for the state). The Workers' Council is in place but with lesser power than in SOEs</b>	Managed by municipal authorities. Privatisation.	<b>Managed by municipal authorities. Partial or limited privatisation/management contracts. Works' Council</b>	Managed by municipal or political authorities. Partial or limited privatisation/management contracts	←•
Market and competition	None. Supply and demand, entry and exit rare and fully controlled and regulated by the state	<b>Largely free. Supply and demand regulated. Entry and exit of firms free but very rare in practice</b>	Free. Competition in the market determines supply and demand, entry and exit	<b>Free. Competition in the market determines supply and demand, entry and exit. The Government corrects market failures</b>	Free. Market failures frequent. Limited role of the Government in correcting them	•→
International trade	Fully controlled by the state.	<b>Partially liberal. Import and export quotas for shortages and surplus apply. YUS standards</b>	Liberal. No restrictions on import and export.	<b>Liberal. No restrictions on import and export. However, products must meet the EU standards</b>	Liberal and with no restrictions, but a lot of smuggling and unfair competition	→•←
Decision	Director elected by	<b>The Workers' Council</b>	Director/Chief Executive or	<b>Director/Chief Executive or</b>	Director/Chief	•→

making at micro level	political authorities and officials. Director accountable to politicians	<i>as a central decision making organ. Director general accountable to the Workers' Council</i>	owner. Management of the company. Director accountable to management board	<i>owner. Management of the company. Director accountable to management board</i>	Executive or owner. Management of the company. Director accountable to management board	
Consumer goods	Imports restricted. Frequent shortages.	<i>Shortages avoided through importing of goods</i>	Abundance of consumer goods. Money not available for all consumers of various goods due to sharp differences in incomes	<i>Abundance of consumer goods. Availability of money more spread to the population as a result of Governments' redistribution of incomes through social policies</i>	No shortages of goods but shortage of money for the poor and unemployed	→•←
Enterprise behaviour and objective	Pursuing the interests of politicians and officials. Soft budget constraints - subsidies	<i>Promoting and maximising the workers' welfare. Inefficient penalties for workers' misconduct (their Assembly and Council can dismiss the management). Soft budget constraints - subsidies</i>	Profit maximisation. Strong working discipline and efficient penalties. Hard budget constraints and permanent threat of bankruptcy.	<i>Profit maximisation and welfare of employees. Strong working discipline with penalties for misconduct in place. Hard budget constraints except in agriculture.</i>	Profit maximisation. Workers' exploitation in initial and intermediate transition phase due to high unemployment and large share of informal sector. Hard budget constraints	•→
Income distribution	Determined by the state or its agents/management of the companies	<i>The workers are biased to increase their salaries as the company increases profit. Restrictions by the Government on the use of profit. Welfare of the workers.</i>	The owner/entrepreneur/management decides about allocation of the profit. Workers' salaries determined by the management or the labour market. Lower taxes for businesses – corporations	<i>Workers' salaries determined by the company or the labour market depending on his/her skills. Higher taxes for corporations – may make them less competitive. The Governments' policy for redistribution of incomes</i>	Lower salaries for the workers as a result of limited labour mobility and unemployment. Lower taxation for corporations to attract foreign direct investment	•→
Housing policy/apartment blocks	State-owned. Residents do not have the right to sell them.	<i>Socially-owned. The right to use and generate incomes from renting. No right to sell the property</i>	Privately-owned. Housing market	<i>Privately-owned. Housing market</i>	Privately-owned. Housing market. Property rights disputes more common than in the West	←•→

Notes:

→•← Convergent;

←•→ Divergent

←• Partially convergent or closer to divergence

•→ Partially divergent or closer to convergence

### **3. Development disparities in self-management socialism and during transition to a market economy**

The greatest challenge of the self-management which it faced from the beginning, was to reduce regional disparities in economic development inherited after WWII. Narrowing the gap between developed regions (DRs, Slovenia, Croatia, and Vojvodina) and less developed regions (LDRs, Bosnia and Herzegovina – BiH, FYR Macedonia, Montenegro, and Kosovo), a similar approach used by SMEC, became a top priority for both ideological and political reasons.<sup>9</sup> Referring to the Gini coefficient as a measure of income inequality for the period 1953-1965 when it was 0.25, self-management seems to have been in line with centrally planned economies. During that period, the system recorded the fastest economic growth in the world measured by output, combined labour productivity and rising employment (Horvat, *op. cit*, 1982).<sup>10</sup> The labour productivity as a whole had hidden many qualities and deficiencies at micro level. There were workers in SOEs working harder on one hand, and lazier or far less productive ones on the other hand who received equal salaries. Standards of productivity measurement for awards and/or reprobation, did not apply efficiently and this had contributed to erosion of the working discipline (Mulaj, 2007).

The role of reducing the gap in development was played by the General Investment Fund (until 1963 when it was abolished), which followed the

---

<sup>9</sup> Reducing the inherited gap in development between DRs and LDRs was a challenge and priority because of multinational composition of the country where no nationality was dominant. Territorial division of the federal units was also not clearly arranged on national basis. For example, Serbs were the largest ethnic group who, apart from Serbia, lived in a considerable number in BiH and Croatia. Croats followed after Serbs, where a large minority of Croats lived in BiH and Vojvodina. Bosnians or Muslims, the largest ethnic group of BiH were also found in the region of Sandzak, in Serbia. As by the end of 1980s, the only units with the highest share of indigenous population were Slovenians in Slovenia and Albanians in Kosovo. Albanians also lived in FYR Macedonia comprising around ¼ of total population.

<sup>10</sup> The Croatian economist Branko Horvat after his study (book) “The Political Economy of Socialism” published in 1982 in English, was nominated by the American Society of Economists for the Nobel Prize for economy. The book is translated into Chinese in 2001 or two years before Horvat passed away. A kind of self-management and market socialism is still present in China. China’s township village enterprises have many self-management rights like SOEs had in the former SFRY. Economic growth in China is the fastest in the world for almost three decades in a row, getting out an estimated 400 million people of poverty (i.e. like the total population of Germany, Britain and France combined), but this model is not subject of discussion in this paper.

establishment of the Federal Fund for Crediting Economic Development of LDRs. The Fund gave favourable credits for investments and resources for development to LDRs. It also acted as a centre of coordination and cooperation between DRs and the LDRs. The policy of regional development and use of the Fund faced challenges between centralised and decentralised approach.<sup>11</sup> Regional development policy achieved a partial success by narrowing the gap somewhere and increasing it elsewhere. Pleština's (1992) work and reference to official federal statistics of SFRY notes a gap of incomes per capita between the most developed Slovenia and the least developed Kosovo as 1:4 in 1953 and 1:8 in 1990. The figures of World Bank (1991) presented in Appendix to this paper for the same comparison in 1990 indicates a ratio of around 1:4, which may suggest that the gap in incomes per capita between Slovenia and Kosovo actually narrowed. The widening of this and other gaps during transition to most recent years, is worth commenting after a reference to some studies on the issue, in which a number of successor states of the former SFRY were included in analyses. The studies are only indicative given the unreliable data in transition economics, difficulties and standards of measurement.

Milanovic (1995) finds that a growing income inequality has increased the number of population living in poverty. The causes of earnings inequality were identified or attributed to skilled workers such as professionals who were more able to adopt their skills to the labour market requirements. Incomes of middle class with skills from socialist system had generally declined. Ruminska-Zimny (1997) thinks that to this change it has come as a result of not only deterioration in economic performance, but also because the *nomenklatura* was in a better starting point to utilise opportunities at the expense of the population. The *nomenklatura* already had an endowment of wealth, and as the process of transition evolved, it gave rise to further income differences and deepening of poverty. Transition countries

---

<sup>11</sup> DRs supported decentralisation clearly to benefit their interests. Serbia being at an average level of development in the federation supported centralisation, something which Slovenia and Croatia saw as a tendency of Serbian domination. LDRs for their benefits should have supported centralisation, but except Montenegro which on average was benefiting more from the Fund, BIH, Macedonia, and Kosova did not prefer centralisation because of the fear of Serbian domination from which they had suffered in the past (Lydall, 1984).

suffering from ethnic conflicts and civil wars like in the former Yugoslavia, where the governments had the power centralised which directed and used many resources to finance the war expenditures. Apart from causing economic performance, the shift or allocation considerable resources for war contributed to the rise of income differences by making few at the top rich even in a criminal way (Wolf, 1999).

Forbes (2000) finds a positive relationship of income inequality on growth in a sample of 45 countries of world using a panel data set from 1966-1995. The findings for the sample as whole could not contradict earlier studies on negative impact of income inequality on economic growth. Barro (2000) for instance, did not find any significant relationship between inequality and growth when he used three stage least squares (3SLS) with random effects for the whole sample. But when he looked at across sub-samples, the impact on growth relationship was found negative for poor and positive for rich countries. The results of Yeon Kim and Pirttila (2006) study using the data from transition economies, suggested that public support for reforms is negatively correlated with growing income inequality which further acts as a political constraint to the reform progress. A more recent study by Sukiassyan (2007) for transition economies, is in line with majority of earlier studies on the issue when it indicates a strong negative impact of rising income inequality on economic growth.

Unfortunately, an indicator of crucial importance – poverty level, is not available for comparative discussion even for different interrupted or certain periods, e.g. a given year in the late period of socialism, then two or three years during transition until recently. Poverty in socialism was hidden and kept confidential. Measuring poverty level in transition economies, in particular the former SFRY region, is a serious challenge, figures unreliable and interpretation difficult due to scarcity and low quality of the data. In addition, there are methodological problems about the real poverty line where, different poverty lines are used. Another problem is that, even existing measures are not annual but for a certain year in time period which often differs by country. This makes comparisons less relevant for the countries

we have under consideration, and even less relevant as disintegration of Yugoslavia continued over the last two decades until 2008 when Kosovo became an independent state. In any case, apart from Slovenia as a member of the EU, poverty remains widespread and multidimensional among many categories of people. Poverty in rural areas increased sharply as a consequence of civil wars and flow of the people to the cities in search of better life. Sarajevo, Belgrade, Zagreb, Pristina are capitals to have been overpopulated after the civil wars by newcomers from rural areas where they have been largely depending on subsistence agriculture.

The figures presented in Appendix may provide a clue about general picture of the SFRY, now comprised of seven successor independent states. The figures suggest that total population of this region has shrunk by 1 million from 1990 to 2007 as a result of civil wars and migration. Development disparities in terms of incomes per capita and unemployment rate appear to have substantially widened over time. As of 2007, Slovenia's GDP per capita was 11.4 times higher than of Kosovo, or Kosovo's GDP per capita accounted for only around 8 percent to that of Slovenia. Except Slovenia and Croatia, the rest of the countries with lower levels of GDP per capita have also a double digit unemployment rate ranging from over 18 percent in Serbia to a more recent estimate of 45 percent in Kosovo. Income inequalities or Gini Coefficient within the countries increased. In FYR Macedonia this figure was recorded as being the same in 1989 and in 2002, at 0.27. For the rest, it increased to over 0.30. The rise in income inequalities, in addition to the causes mentioned earlier in this section that were more or less in common for many countries, arose in the privatisation process of social ownership involving rent seeking behaviour. The process of mass privatisation was heavily criticised for not involving broad citizens' participation, being non-transparent and selective from which a small group, mostly supporters of the party in power (Croatian Democratic Union - HDZ) led by Franjo Tudjman, benefited (Franičević, 1999). A similar case of unfair benefits by the political party in power happened in Serbia under Milošević's Socialist Party of Serbia - SPS (Palairt, 2001). This may only one of the many other reasons why Gini Coefficient for Slovenia in 2002



stood at 0.30 whereas in Croatia at 0.35 and Serbia at 0.37. Perhaps naturally, the democratic votes brought to power social democrats in Croatia, and later democrats in Serbia. A similar rotation or revision of economic policies occurred in Albania in 1997 with the return of socialists into power after collapse of pyramid schemes following by severe social unrest with 1,500 deaths and widespread destruction of property. The case or lesson of Slovenia is completely different in this respect. The long serving communist leaders Milan Kučan and Janez Drnovšek were in top positions as Prime Minister and President of Slovenia throughout the transition or one and a half decade. To sum this section up, countries with more income inequalities and rent seeking behaviour tend to be politically and economically less stable.

#### **4. What economic model and system for the former SFRY countries?**

Although the Anglo-American version of a market economy known as new liberalism operating since the 1980s was praised for efficiency but now has come to the question of revision following the Democratic Party winning of the White House, its efficiency was mixed even before. For instance, Clinton's years of economic management and policies that were more socially oriented, were more efficient than Reagan's policies of more limited interventionism, lower taxes and deregulation. In Britain too, large scale privatisation by the Thatcher government of public companies had pushed unemployment at 11 percent by 1986 and doubled the poverty (Florio, 2004). In spite of some success, the reputation of Thatcher's successor John Major and his cabinet was generally disregarded for economic competence after the Black Wednesday in 1992. *Britain has slipped to 21st in the world prosperity league – another fine mess*, was the famous slogan of Labour Party before taking power in 1997 to end the 18 years of consecutive Conservative government. In Germany or the pioneer of *Sozialen Markwirtschaft*, the economy was in a mild recession since the introduction of Euro as a currency. Currently, the SMEC in its birthplace country is in serious crisis and under discussion to be significantly, if not substantially, reformed. Notwithstanding the current crisis, shortcomings as well as the past of SMEC that brought the *Wirtschaftswunder*, or

prospects of other economic models, the question in this section is: what economic model and system should the successor states of the former SFRY have? The rest of the section excludes Slovenia as an EU country that has reached a higher level of development, stability and social welfare against her counterparts with which once was part of Yugoslavia.

The countries concerned already have their economic model(s) in place and operational. That is the market economy model but still in transition or like the early capitalist development in Western countries. Based on the problems and deficiencies presented so far, the governments should undertake serious steps, be deeply committed and allocate resources for reforms to make a progress towards a more comprehensive SMEC model. A number of causes described and discussed up to this section, justify the recommendation; widespread poverty, high unemployment rate, rent seeking behaviour, rising income differences, risk of social tensions, and so on. The problem is not so much to the resources available to achieve this objective; the problem is to the behaviour of the governments and political establishments. Therefore, their behaviour should change first, so the population and electoral votes do not need, because of unhappiness, to put into and down from the power different elites frequently except those elites that are more committed for general welfare.

One approach to reform the current transition model into SMEC is to learn from the experience and accumulated knowledge of the Western Europe, especially Germany from where this model originated and has longer tradition. Since copying the model is not known what effects would produce due to different historical stages of development (like the Washington Consensus for transition countries), the experience of Eastern Germany might be useful as a former socialist country. Yet the lesson from this experience has considerable limitations as it was an institutional transplantation with massive resource allocation from West Germany. Successor states of the former SFRY are not in a position or lucky to receive that huge aid and support. The funds of many international organisations and the EU regardless how helpful might be, again may not be sufficient. An early study by

Sen (1981) has indicated that many aid programmes through development agencies and UN organisations were not successful to prevent widespread famines, hunger, starvation and deaths of millions of people world wide. The greatest effort, commitment and determination should come from inside or the countries themselves first. Perhaps a better lesson for a SMEC can be learned from the country which once was part of the SFRY and now EU member – Slovenia.

It should be noted that the concept and model of SMEC is popular and acceptable to majority if not to all in the Western Balkans. However, the determination and economic conditions in practice suggest that the model is far away from being standard. The governments may play a more active role by redistribution of incomes in favour of implementing social policies to provide a better welfare state. Redistribution effects by taking away a share of resources successful or powerful people (capitalists) in a form of higher taxes and allocate them for social policies to the poor for empowerment, may make businesses less competitive and constrain economic growth in the short run. But it is better that the state does so. The capitalists in transition economies do not have any incentive to employ additional workers if that does not result in maximisation of profit. If they do allocate or raise funds for humanitarian aid, that is more to enhance their prestige as individuals or group on behalf of aid at home and international level.

Promotion, implementation and strengthening of social policies should be intensified, because, these are the countries coming out of the Yugoslav war as did Western Europe. Economic consolidation and sustainable development with the exception of Croatia, have not proven so successful with current economic model. The rest of the region remains vulnerable to social tensions where, underdevelopment is one of the main causes with the risk, as Marx put it, of class struggles and internal contradictions. Only the way to faster economic development and better welfare for the citizens may make the people more tolerant against social tensions and SMEC is an alternative. SMEC is also a model for majority of the EU countries or the union in which the countries of the Western

Balkans not aspire to join as soon as they can. To get to the EU membership faster and more prepared, social policies should be reformed. Some policies in place and underway to be reformed are not in compliance with the rhetoric for becoming more SMEC. For example, the Government of Kosovo has approved changes in taxation policy that are due to enter into force from January 2009, according to which: Corporate Income Tax (CIT) rate is halved from 20 to 10 percent, Value Added Tax (VAT) is increased from 15 to 16 percent. The International Monetary Fund (IMF, 2008) had warned the Government in advance not to go below the rate of 15 percent for CIT fearing this may endanger the state's budget stability as Kosovo has a limited taxation base or less number of taxes than the neighbouring countries. The Government wrongly reported and the media wrongly broadcasted that VAT is to increase by 1 percent. An increase from 15 to 16 percent is precisely an increase by 6.7 percent. Furthermore, what the Government is trying to do by this scheme, is simple; to make the few richer, and the majority of population (45 percent lives in poverty and another percentage close to this is unemployed) even poorer, plus, eventually bringing additional people into poverty line (VAT is mostly a tax on everyday consumption of food and related items) by increasing their cost by 6.7 percent (Mulaj, 2008). Still with Kosovo (because this is being presented a very unique case in the world), after approving the changes in taxation scheme, the Government made a great publicity in the media when it signed the memorandum with the United Nations Development Programme (UNDP) to reach the Millennium Goals. Two of eight Millennium Goals are: i) halve the proportion of people living in poverty line by 2015; and ii) combat HIV/AIDS, malaria, and other diseases. In the first Goal, the Government is in the opposite track. And so is in the second Goal (UNDP's sixth Goal), in which one of the Goal's objective says: "[to] save halted by 2015 and begun to reverse the spread of HIV/AIDS". Here too, the Government is on the wrong track with the Constitution containing controversial provisions against human dignity and family.<sup>12</sup> Obviously, the case of Kosovo is indeed very specific,

---

<sup>12</sup> <http://www.kushtetutakosoves.info/repository/docs/Constitution.of.the.Republic.of.Kosovo.pdf>. The author of this Paper has been involved with representatives of 50 NGO's from the United States and Europe in advising the Government about controversial provisions that the Draft Constitution had, which was prepared

but it a reminder and lesson for fragile democracies in underdeveloped countries in this region of the Balkans that, socially oriented reforms may not work or produce expected results as long as there are more demagogy than concrete actions in economic development and welfare of the states. And this is what has been and is often featuring political elites in most successor states of the former SFRY, especially those with high unemployment rate and poverty level.

## **5. Conclusions and further discussion**

When socialism collapsed and transition to a market economy begun, in its first years, delivered many disappointed results. Lack of sound and elaborated theories on economic (also political) transition has long been blamed in the literature of transition economics as one of the main causes leading to unexpected surprises. Criticism against capitalism could have been in place by many when transition emerged. People in general somehow had to agree for the way ahead because there was no alternative or the way back. This Paper did not attempt to discover something new by discussing historical evidence that led to the outspoken lack of theories on transition from socialism to a market economy; the point was to learn a lesson for generating theories for the present and possible anticipated economic

---

by some foreigners from A to Z. The Government refused to make amendments and approved the Constitution subsequently by acclamation in Kosovo's Parliament. Some of controversial provisions, now in force, are: Article 24.2 disallows discrimination based on sexual orientation. This clause will be used to promote homosexual marriage in Kosovo; Articles 25 and 26 legalise abortion; Article 37 does not recognise natural family as there is no reference to marriage between men and women. Article 72.1 uses the term "gender" which is a grammatical case (masculine, feminine and neutral) and rejects or does not refer to "sex" (male and female or man and woman). Before all these, Article 19.2 puts all international norms above every law in Kosovo. It continues in Article 20.1 to state that "The Republic of Kosovo may on the basis of ratified international agreements delegate state powers for specific matters to international organizations". Once this is done (delegation of power), immediately in Article 20.2 "...those norms [of international organisations] have superiority over the laws of the Republic of Kosovo". These bizarre provisions and the Constitution as whole which are prepared and enforced to destroy perhaps the cleanest population in Europe from sexually transmitted diseases, are repeatedly called in the media by Kosovo's President Fatmir Sejdiu and Deputy Prime Minister Hajredin Kuçi, as "the Bible and the Koran of Kosovo". Both of them are professors of constitutional right at the Faculty of Law of the Pristina University. Calling these things the Bible and the Koran or something sacred, is beyond every rational thinking. President Sejdiu's official speech is available here: <http://www.telegrafi.com/?id=26&a=506>, accessed on November 2008. It is in Albanian, but every reader familiar with Latin, Germanic and Roman languages and characters can easy understand the title. Of least importance in Kosovo's Constitution is Chapter X – Local Government and Territorial Organisation (2 articles in one page) to be followed by preceding Chapter IX – Economic Relations (4 articles in one page and a half).

problems without the fear that someone may be executed as counter revolutionary (like in the FSU during the 1930s) and his/her writings banned, interned to the countryside (like in China in early years of communism), or sentenced to 9 years in prison for liberal ideas (like in the former SFRY after the split with the FSU and introduction of self-management). Moreover, the studies on transition economics still have to clarify with analyses the meaning of some terms such as *transformation, transition and evolution*.

Self-management socialism by no doubts was a more advanced economic model than centrally planned socialism, both in terms of theoretical perspective and practice. The market played a role in self-management and that is why its alternative name was market socialism. It was much different from the Soviet type socialism despite that it evolved from that copy in the early 1950s, and begun transition to a full market economy approximately in the same period as centralist socialism in other CEE countries. The outbreak of the civil wars and disintegration of the former SFRY overshadowed analyses and left many questions unanswered as what “surprises or failure” the transition of this model might have had in peaceful time. For the rest of CEE economies, transition surprises are known; the rising of income inequalities, high unemployment and deepening of poverty at the expense of majority for the benefits of few in power. Leaving aside the impact of war, a similar path has followed the transition of self-management, which to some extent appears to be not a desired or correct path.

As a theory and practice, self-management had more in common with SMEC than centrally planned socialism and new liberal economy, excluding the issue of property rights. Self-management could more easier make transition to a SMEC than to current condition in which it is and looks like early capitalist development or “wild capitalism” with rent seeking behaviours and the risk of social tensions within and between countries. Unsatisfactory economic conditions of successor states of the former SFRY that are waiting to become EU members. To make their journey easier towards that target more feasible, these countries need to make another transition in different meaning – they need to reform their economies a lot from

social perspective. The reforms towards SMEC are in line with the requirements of the other EU countries, regardless that the EU has not yet unified this model in her Constitution. When it comes to the critique or further reforming (for which the debate is actually going on), or eventually giving it up, the theory certainly will find alternatives. But let the SMEC first give economic effects it has given in Germany after WWII, then there will be time for alternatives. With unemployment and poverty running at double digits in Kosovo, Bosnia and Herzegovina, Serbia, FYR Macedonia, and Montenegro, the general public finds it hard to agree with current “wild capitalism” that may take long time to substantially reduce unemployment and poverty. The current course of economic development should be changed to the concepts of SMEC and some of the self-management which more or less are found to be convergent. There is no way to the past and the name communism, but to the concepts of operation, whatever they might be called, that make a better allocation and utilisation of resources – the basic concept of economics. This is what matters above all, irrespective of ideologies.

It is not so important how much resources the countries under consideration have at their disposal for social policies to provide a better welfare for the population. Behaviour and the way how existing resources are allocated and used, which at present are found to increase income differentiation. This is an important topic to be investigated in future research. Furthermore, in addition to the categories of social policies presented in Table 1 and discussed hereto, future interesting discussion or research may include: human development, minimum wage policies, pension reforms, family issues (maternity leave, child allowances), education (illiteracy and child labour), regional economic development, and economic competitiveness of the countries from social development perspective.

**Appendix: Some of the main economic indicators of SFRY and her successor states**

Countries	Population		GDP per capita (in \$)		Gini Coefficient		Unemployment rate (in %)	
	1990 <sup>a)</sup>	2007(in mil.) <sup>b)</sup>	1990 <sup>a)</sup>	2007 (est) <sup>b)</sup>	1989 <sup>c)</sup>	2002 <sup>c)</sup>	2002 <sup>b)</sup>	2007 <sup>b)</sup>
Bosnia and Herzegovina	4,364,000	3.8	2,490	3,645	n/a	n/a	41.0	39.0
Croatia	4,784,000	4.4	5,350	12,360	n/a	0.35	14.5	8.3
FYR Macedonia	2,021,000	2.0	2,180	3,794	0.27	0.27	31.9	34.2
Kosovo	1,965,000	2.1 <sup>d)</sup>	1,840	2,005 <sup>d)</sup>	n/a	n/a	55.0 <sup>e)</sup>	n/a
Montenegro	652,000	0.7	2,330	4,085	n/a	0.37*	36.7	26.4
Serbia	5,590,000	7.5	2,970	4,907	n/a	0.37*	29.0	18.1
Slovenia	1,982,000	2.0	6,940	22,916	0.22	0.30	6.5	4.7
Vojvodina	2,021,000	**	3,790	**	**	0.37*	**	**
Total SFRY	23,451,000	22.5	3,587	7,673***	-	-	-	-

\* Federal Republic of Yugoslavia (Serbia, Montenegro, Kosovo).

\*\* Included in Serbia;

\*\*\* The EBRD statistics lists the measures of GDP in the countries' national currency but GDP per capita in US Dollars (\$) for all of them;

“n/a” data not available or could not be obtained.

“-“ not applicable.

Sources:

a) World Bank (1991), *World Development Report 1991: The Challenge of Development*, New York: Oxford University Press for the World Bank, Statistical Annex, Tables 1 and 2;

b) European Bank for Reconstruction and Development – EBRD (2008), *Transition Report: Growth in Transition*, London: EBRD, statistics accessed online;

c) Sukiassyan, Grigor (2007), “Inequality and Growth: what Does the Transition Economy Data Say?”, *Journal of Comparative Economics*, Vol. 35, No. 1, pp. 35-56, table 3, *op. cit.*;

d) International Monetary Fund – IMF (2008), *Aide Memories of the IMF Staff Mission to Kosovo*, April 21 to 29, 2008, Washington D.C.: IMF, Table 1;

e) World Bank (2007), *Kosovo Poverty Assessment: Accelerating Inclusive Growth to Reduce Widespread Poverty*, Vol. 1, Report No. 39737, Poverty Reduction and Economic Management Unit of the World Bank, Washington D.C.: World Bank.



## Literature

Barro, Robert J. (2000), "Inequality and growth in a panel of countries", *Journal of Economic Growth*, Vol. 5, No.1, pp. 5–32.

Clapham, Ronald (2007), Welche Bedeutung haben nationale Wirtschaftsordnungen für die Zukunft der EU? Der Beitrag der sozialen Marktwirtschaft (*What meaning does national economic order for the EU's future have?*), Discussion Paper No. 4, First Dialogue on Social Market Economy: The Social Market Economy Concept and its Implications, Zwickau, 29-30 November 2007, available at: [http://www.ordnungspolitisches-portal.de/05\\_02\\_OPO\\_Diskurse\\_2007-04.pdf](http://www.ordnungspolitisches-portal.de/05_02_OPO_Diskurse_2007-04.pdf)

Clissold, Stephen (1975) ed., *Yugoslavia and the Soviet Union 1939 – 1973: A documentary Survey*, Oxford: published for The Royal Institute of International Affairs by the Oxford University Press.

Djilas, Milovan (1946), Mbi Perspektivat e Zhvillimit Ekonomik të Jugosllavisë (*On Economic Development Perspectives of Yugoslavia*), Botim i Këshillit të Frontit Populluer të Kosovës dhe Metohisë, Prishtina. (translation).

Djilas, Milovan (1951), *O Agresivnom Pritisku Vlada Sovjestkog Bloka Protiv Jugoslavije* (*On Aggressive Pressure of Soviet Block Governments against Yugoslavia*), Beograd: FNRJ.

Djilas, Milovan (1957 [1983]). *The New Class: An Analysis of the Communist System*, paperback, San Diego: Harcourt Brace Jovanovich.

Dyker, David A. (1990), *Yugoslavia: Socialism, Development and Debt*, London: Routledge.

European Bank for Reconstruction and Development – EBRD (2008), *Transition Report: Growth in Transition*, London: EBRD.

Esderts, Hans, J. (2003), Easy Guide to Social Market Economy, Bahasa: Friedrich Ebert Stiftung, available at: <http://www.fes.org.ph/pdf/Social%20Market%20Economy%20Booklet.pdf>

Estrin, Saul and Tea Petrin (1991), Patterns of Entry, Exit and Merger in Yugoslavia', in Geroski, Paul A. and Joachim Schwalbach, eds., *Entry and Market Contestability: An International Comparison*, Oxford UK and Cambridge US: Blackwell, pp. 204-220.

Florio, Massimo (2004), *The Great Divestiture: Evaluating the Welfare Impact of the British Privatization 1979 – 1997*, Cambridge: MIT Press.

Forbes, Kristin J. (2000), "A Reassessment of the Relationship between Inequality and Growth", *The American Economic Review*, Vol. 90, NO. 4, pp. 869-887

Franičević, Vojmir (1999), "Privatization in Croatia: Legacies and Context", *Eastern European Economics*, Vol. 37, No.2, pp. 5-54.

Government of the Republic of Kosovo (2008), *Constitution of the Republic of Kosovo*, Prishtina: Government of the Republic of Kosovo, available at: <http://www.kushtetutakosoves.info/repository/docs/Constitution.of.the.Republic.of.Kosovo.pdf>.

Hasse, Rolf, H., Hermann Schnedier and Klaus Weigelt, eds, (2008), *Social Market Economy, Principles and Implementation – From A to Z*, Paderborn: Verlag Ferdinand Schöningh.

Hellmann, Joel S. (1998) *Winners Take All: The Politics of Partial Reform in Postcommunist Transitions*, *World Politics* No. 50.

Horvat, Branko (1982), *The Political Economy of Socialism: A Marxist Social Theory*, Oxford: Martin Robertson.

International Monetary Fund – IMF (2008), *Aide Memories of the IMF Staff Mission to Kosovo, April 21 to 29, 2008*, Washington D.C.: IMF.

Joerges, Christian and Florian Rödl (2004), “Social Market Economy” as Europe’s Social Model, European University Institute Working Paper 2004/8, San Domenico.

Jugoslovenski Pregled (1990), *The Constitution of the Socialist Federal Republic of Yugoslavia (1974)*, Beograd: Jugoslovenska Stvarnost.

Kardelj, Edvard (1948), *Slabosti i Nedostaci Naše Privredne Izgradnje* (Weaknesses and Imperfections of Building up our Economy), Beograd: speech from the Peoples’ Assembly of the Federal Republic of Yugoslavia, 25 April, 1948.

Kardelj, Edvard and Milovan Djilas (1951), *Nova Jugoslavia u Savremenom Svetu* (The New Yugoslavia in Contemporary World), Beograd: Kultura,

Kardelj, Evard (1954), *Problemi Naše Socialističke Izgradnje: Državna i Privredna Izgradnja* (The Problems of our Socialist Establishment: The Establishment of the State and the Economy), Volume I, Beograd: Kultura.

Knežević, Nikola (1975), *Temeljni Oblik Organizacija Udruženog Rada* (The Basic Form of Organisation of Associated Labour), Zagreb: Informator.

Lichtheim, George (1969), *The Origins of Socialism*, London: Weidenfeld and Nicholson Ltd.

Lydall, Harold (1984), *Yugoslav Socialism: Theory and Practice*, Oxford: Clarendon Press.

McFarlane, Bruce (1988), *Yugoslavia: Politics, Economics and Society*, London: Pinter Publishers.

Milanovic, Branko (1995), *Poverty, Inequality, and Social Policy in Transition Economies*, Policy Research Working Paper No. 1530, Policy Research Department, Washington D.C.: The World Bank.

Mulaj, Isa (2007) “Redefining Property Rights with Specific Reference to Social Ownership in Successor States of Former Yugoslavia: Did it Matter for Economic Efficiency”, *CEU Political Sciences Journal*, Vol.2, No. 3, pp. 225-254.

Mulaj, Isa (2008), *Matematika Ekonomike Joracionale e OJQ-ve dhe e Qeverisë (NGO’s [Non Governmental Organisations] and Government’s Irrational Mathematical Economics)*, available at: <http://www.gazetakritika.net/Forumi/index.php?itemid=1095>, or <http://www.gazeta55.net/index.php?kat=opinion&artikulli=1596>

Nolan, Peter (1995), *China’s Rise, Russia’s Fall: Politics, Economics and Planning in the Transition from Stalinism*, London: MacMillan.

- Palairret, Michael (2001), "The Economic Consequences of Slobodan Milošević", *Europe-Asia Studies*, Vol. 53, No. 6, pp. 903-919.
- Pleština, Dijana (1992), *Regional Development in Communist Yugoslavia: Successes, Failure and Consequences*, Boulder, San Francisco, Oxford: Westview Press.
- Prout, Cristopher (1985), *Market Socialism in Yugoslavia*, Oxford: Oxford University Press.
- Przeworski, Adam (1991), *Democracy and the Market. Political and Economic Reforms in Eastern Europe and Latin America*, Cambridge: Cambridge University Press.
- Ruminska-Zimny, Ewa (1997), Human Poverty in Transition Economies: Regional Overview for HDR 1997, Occasional Papers, New York: United Nations Development Programme.
- Seliger, Bernhard (2002), "Toward a More General Theory of Transformation", *Eastern European Economics*, Vol. 40, No.1, pp. 36-62.
- Seliger, Bernhard and Ralph M. Wrobel (2007), Die Krise der Ordnungspolitik als Kommunikationskrise (*The Crisis of Economic Order Policy as a Crisis of Communication*) Discussion Paper No. 1, First Dialogue on Social Market Economy: The Social Market Economy Concept and its Implications, Zwickau, 29-30 November 2007, available at: [http://www.ordnungspolitisches-portal.de/05\\_02\\_OPO\\_Diskurse\\_2007-01.pdf](http://www.ordnungspolitisches-portal.de/05_02_OPO_Diskurse_2007-01.pdf)
- Sen, Amartya (1981), *Poverty and Famines: An Essay on Entitlements and Deprivation*, Oxford, Clarendon.
- Singleton, Fred and Bernard Carter, B. (1982), *The Economy of Yugoslavia*, New York: Croom Helm & St. Martin's Press.
- Sukiassyan, Grigor (2007), "Inequality and Growth: what Does the Transition Economy Data Say?", *Journal of Comparative Economics*, Vol. 35, No. 1, pp. 35-56.
- Tinbergen, Jan (1961), "Do Communist and Free Economies Show a Converging Pattern?", *Soviet Studies*, Vol. 12, No 4. pp. 333-341.
- Trotsky, Leon (1937[1973]), *The Revolution Betrayed: What is the Soviet Union and Where is it Going?*, Pathfinder Press, New York.
- Uvalic, Milica (1992), *Investment and Property Rights in Yugoslavia: The Long Way Transition to a Market Economy*, Soviet and East European Studies no. 86, Cambridge: Cambridge University Press.
- Vanek, Jaroslav (1970), *The General Theory of Labor-Managed Market Economies*, Ithaca, New York: Cornell University Press.
- Yeon Kim, Byung and Jukka Pirttilä (2006), "Political Constraints and Economic Reform: Empirical Evidence from the Post-communist Transition in the 1990s", *Journal of Comparative Economics*, Vol. 34, No. 3, pp. 446–466.
- Whitt, Ulrich (2002), "Germany's Social Market Economy: Between Social Ethos and Rent Seeking", *The Independent Review*, Vol. 6, No.3, pp. 365-375.

Wolf, Holger, C. (1999), "Transition Strategies: Choices and Outcomes", *Princeton Studies in International Finance*, No. 85, Princeton University: Department of Economics.

World Bank (1991), *World Development Report 1991: The Challenge of Development*, New York: Oxford University Press for the World Bank.

World Bank (2007), *Kosovo Poverty Assessment: Accelerating Inclusive Growth to Reduce Widespread Poverty*, Vol. 1, Report No. 39737, Poverty Reduction and Economic Management Unit of the World Bank, Washington D.C.: The World Bank.

# Ordnungspolitische Diskurse

## Discourses in Social Market Economy

- 2007 – 1 Seliger, Bernhard; Wrobel, Ralph – Die Krise der Ordnungspolitik als Kommunikationskrise
- 2007 – 2 Sepp, Jüri - Estland – eine ordnungspolitische Erfolgsgeschichte?
- 2007 – 3 Eerma, Diana; Sepp, Jüri - Competition Policy's Role in Network Industries - Regulation and Deregulation in Estonia
- 2007 – 4 Claphman, Ronald - Welche Bedeutung haben nationale Wirtschaftsordnungen für die Zukunft der EU? Der Beitrag der sozialen Marktwirtschaft
- 2007 – 5 Strunz, Herbert – Staat, Wirtschaften und Governance
- 2007 – 6 Jang Tae-Seok - South Korea's Aid to North Korea's Transformation Process - Social Market Perspective
- 2007 – 7 Libman, Alexander - Big Business and Quality of Institutions in the Post-Soviet Space: Spatial Aspects
- 2007 – 8 Mulaj, Isa - Forgotten Status of Many: Kosovo's Economy under the UN and the EU Administration
- 2007 – 9 Dathe, Uwe - Wettbewerb ohne Wettbewerb? Über die Bedeutung von Reformen im Bildungswesen für die Akzeptanz der Wettbewerbsidee
- 2007 – 10 Noltze, Karl - Die ordnungspolitische Strategie
- 2008 – 1 Seliger, Bernhard - Die zweite Welle – ordnungspolitische Herausforderungen der ostasiatischen Wirtschaftsentwicklung
- 2008 – 2 Gemper, Bodo Rheinische Wegbereiter der Sozialen Marktwirtschaft: Charakter zeigen im Aufbruch
- 2008 – 3 Decouard, Emmanuel - Das „Modèle rhénan“ aus französischer Sicht
- 2008 – 4 Backhaus, Jürgen - Gilt das Coase Theorem auch in den neuen Ländern
- 2008 – 5 Ahrens, Joachim - Transition towards a Social Market Economy? Limits and Opportunities
- 2008 – 6 Wrobel, Ralph - Sonderwirtschaftszonen im internationalen Wettbewerb der Wirtschaftssysteme: ordnungspolitisches Konstrukt oder Motor institutionellen Wandels
- 2009 – 1 Wrobel, Ralph - The Double Challenge of Transformation and Integration: German Experiences and Consequences for Korea
- 2009 – 2 Eerma Diana; Sepp, Jüri - Estonia in Transition under the Restrictions of European Institutional Competition
- 2009 – 3 Backhaus, Jürgen - Realwirtschaft und Liquidität
- 2009 – 4 Connolly, Richard - Economic Structure and Social Order Type in Post-Communist Europe
- 2009 – 5 Dathe, Uwe – Walter Eucken und der Staat Zum Zusammenhang von wirtschaftlichem und politischem Liberalismus 1918-1934
- 2009 – 6 Fichert, Frank - Verkehrspolitik in der Sozialen Marktwirtschaft
- 2009 – 7 Kettner, Anja; Rebien, Martina – Job Safety first? Zur Veränderung der Konzessionsbereitschaft von arbeitslosen Bewerbern und Beschäftigten aus betrieblicher Perspektive
- 2009 – 8 Mulaj, Isa – Self-management Socialism Compared to Social Market Economy in Transition: Are there Convergent Paths?

## **Herausgeber:**

PD Dr. habil. Bernhard Seliger – Seoul

Prof. Dr. Ralph M. Wrobel – Zwickau

**[www.Ordnungspolitisches-Portal.de](http://www.Ordnungspolitisches-Portal.de)**