

## **SOVIET REHEARSAL IN YUGOSLAVIA? CONTRADICTIONS OF THE SOCIALIST LIBERAL STRATEGY**

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For a generation of East Europeans, party stalwarts, and Balkanologists raised to view the Yugoslav path as heresy, the current changes in the Soviet Union must present one of those great ironies of history. A liberal communist programme once labelled Revisionist is now viewed as the guiding hope of a post-Cold War world and Soviet prosperity. A conflict that went public in June 1948 within days of the currency reform in Germany that finalized its division is now forgotten in the congratulations over Soviet acceptance of German reunion. In places where anti-Titoist purges paved the way to Stalinist rearmament in eastern Europe, there now comes criticism of Yugoslavs for their slow pace of anti-communist purge. And 41 years after Yugoslavia's path to reform — its "sell-out to Wall Street" — was assured in the fall of 1949 with US commitment of military aid and then food, the Soviet Foreign Minister, Edward Shevardnadze, presented Washington with a request for food to protect Soviet reforms.

Despite their substantial difference in international significance, power, and wealth, the similarity between the Yugoslav path since the late 1940s and the one chosen by the Soviets in the 1980s is unavoidable. So, too, is the relation between their introduction and international conditions. The parallels are neither chance events nor limited to their common multinational federalism. The Yugoslav experience provides direct lessons for analysis of the roots, possibilities, and contradictions of the Soviet reforms. These parallels originate in two fundamental characteristics of communist party governance: first, the crucial importance of the strategy of accumulation that its leaders choose for the whole pattern of institutional development and domestic conflict; and second, the importance that international conditions play in that choice of strategy.

In the Yugoslav case, the outcome of this strategy for growth and its implementing institutions has been long-term foreign indebtedness, economic cycles closely tied to international economic cycles, and by the 1970s stagflation, moving into hyperinflation and mass

unemployment in the 1980s. Ever more divisive nationalist conflict accompanied economic problems and, by 1991, seriously threatened the break-up of the Yugoslav state itself.

These economic troubles have largely been blamed on worker self-management, on the erroneous assumption that workers have power over wages and employment in Yugoslavia. Avoiding the "Yugoslav path" thus has become a code word for preventing "worker control" in firms. Conflicts between the republics and the recent political movement toward independence by Slovenia and Croatia are laid to a history of "primordial" ethnic antagonisms exacerbated by the communist party's ostensible denial of the democratic right of national self-determination. And like analyses of reform programmes in other communist states, discussion tends to focus on political opposition, especially in the phases of implementation.

By focusing instead, however, on their common strategy of accumulation one can see these outcomes as the result of internal contradictions in the strategy itself (including assumptions about integration into a non-socialist and global economy) and the political conflicts they generate that would need to be addressed even if a purge of conservative opposition were final and complete. Problems seen as external obstacles to the success of reform<sup>e</sup> — ethnic conflict, a disintegrating central authority and its reaction, urban middle class disenchantment, and economic difficulties of rising inflation and unemployment — are instead its products. And the story in Yugoslavia and Eastern Europe is that the strain of these internal contradictions is felt most intensely by the socialist elements of their programme — the absence of capital markets and independent banks, the failure of a labour market to discipline wages and work effort, and the role of the party.

### *Analyzing Communist Regimes*

Most analyses of communist party-governed states focus on characteristics that seem blatantly to *distinguish* them from non-communist party systems. Leninism as an organizational form necessary to the concept of a political vanguard, one party rule, democratic centralism, the bureaucratic hierarchy required by a *command* economy, relations between state and society based on the political dominance of the former, even "totalitarianism" seem to form a syndrome worth contrasting to the political forms of competitive party parliamentary polities. But in both communist and non-communist systems the **organizational** characteristics and distribution of political power and authority they institutionalize are instrumental. Behind these instruments and the different agents of change lies a common inheritance of the principal European

discourse of the modern era — rational approaches to the material world and its development.

Although Marxists may place material development more consciously and openly at the core of their visions of the world than some social movements, they are far from unusual in their **developmentalism** and emphasis on economic growth as the basis for human possibilities, or in their internal disagreement over optimal strategies for development. The regimes they created also share the central dilemma of all modern states — how to respond and adapt to the consequences of the internationalization of markets and the subsequent global system of industrial capitalism.

This common dilemma presented the communist regimes with particularly painful constraints, however. First, it was in the market for labour and the livelihoods of small producers that local societies did (and still do) their adjusting. Since they represented the material interests of these groups, communist governments were less free in their choices of adjustment. Second, their revolutions succeeded in societies where delayed industrialization and imperial political systems compounded the local effects of international markets; their programme for societal transformation based on the most developed aspects of capitalism confronted societies that were underdeveloped, backward in self-perception, agrarian in culture, and heterogeneous in their level and extent of incorporation into the world market. The effect on peasants and farmers of highly variable commodity markets, on workers of global depressions, on national minorities of centralizing and rationalizing empires, and on the literate or travelled of a sense of relative material and cultural poverty (translated as "backwardness") enlarged their potential political constituency and allies. But it also brought populist, liberal, and nationalist concerns and tendencies into the proletarian movement.

Their agenda altered to a programme of rapid industrialization. Communist parties in power responded to this dilemma and its constraints with wracking debates on the best strategy of accumulation. For reasons worthy of serious scrutiny, these gelled early into two, and there emerged quite regularized political factions around their respective conceptions of economic development and the related political assumptions about how to put those beliefs into practice. Although the labels "Stalinist" (or conservative) and "reform communist" are now common, their kinship with analogous non-Marxian debates and traditions can be better understood if one contrasts these as "developmentalist" and "liberal". It was only in the institutions for implementing each strategy that communist parties made their particular contribution to the common dilemma. And even these institutions borrowed extensively from their allies in revolution

and the preoccupation in Central and Eastern Europe between the global depressions of the 1880s and 1930s with social control over finance and nationalization (although parties differed in their notion of the "nation", or "people") to protect against the global crises of capitalist accumulation and dependence on foreign capital.

It is commonplace to argue that economic policy in socialist states pursues for some time an "extensive" strategy for development and that its exhaustion as a strategy of accumulation leads to an agonizing political struggle before it is replaced by its natural successor, an "intensive" strategy. In fact, in socialist states no less than capitalist ones, both the advocates of different strategies and their interests and institutions coexist, and the influence of each ebbs and flows with some frequency. Although this is not the place to elaborate the two strategies, some sense of their differences — between what Lenin called the "Prussian" and the "American" roads<sup>2</sup> — is necessary to understand this ongoing conflict.

The primary economic problem for the developmentalists is structural change from agrarian backwardness to advanced industrial economies. Productivity is measured in societal, economy-wide terms and achieved through sectorally-calculated investment in goods necessary for long term stable growth (capital goods, raw materials, infrastructure), though organizational economies of the productive process, concentration of scarce resources, and central allocation when shortages prevail so that social priorities take precedence over market power. Investment decisions for developmental projects are necessarily taken at the centre and implemented by functional ministries while microrationality is the world of the engineer more than the economist. Although there is nothing inherently militaristic about this programme, the economic needs of defence and self-sufficiency in strategic raw materials, food grains, textiles, and capital goods, independently of comparative price advantages in a world market, tend to ally developmentalists with security interests and to ensure their greater influence over economic policy when leaders perceive a national security threat.

For liberals, the purpose of an economy is to provide final consumption goods to the population, and the best strategy of economic policy and institutions is to favour the most modern and successful of the commodity producers. In words associated forever with Bukharin, the more developed industries, regions, and people lead the way, gradually absorbing at the most economically rational pace, the backward regions.<sup>1</sup> Efficiency in the use of labour in production is the primary source of productivity, and the global market is the best standard. This demands substantial autonomy to producers, local initiative, and decentralized operations and even

investment in response to consumer demand in goods markets. Societal productivity is a sum of microefficiencies and is enhanced through trade, especially the import of wage goods and advanced technology produced more cheaply elsewhere, and through minimizing expenditures that do not yield a consumable output, hence rents, bureaucracies, the coercive apparatus of the state, welfare transfers, and so forth. At its core are producers of light manufactures and processed goods that can also be exported and of foods that are best suited to intensive household production such as vegetables, fruits, and meats.

The differences of communist-designed systems from capitalist ones in how these strategies were to be implemented had political and economic components. Politically, of course, the tactics of revolution were to unify the working class behind one movement and leadership so as to break capital's ability to use the labour market (competition between workers over wages and jobs) to divide and conquer; to create a popular front of all working people — medium and small farmers, landless labourers, free professionals (called in the east the "liberal or progressive, intelligentsia") and even lower white collar groups and civil servants — that would make revolution possible on both home and foreign front; and to seize the state. This was a prelude to the economic component: handing control over surplus value (that part of society's product that was not consumed in the course of producing it) to those who produced it — through social ownership of capital assets and a system that kept money the servant of production and prevented the economic crises that were only resolved under capitalism by the devaluation of labour.

The organization of the system of money and credit was no less critical than that of production to those who actually made the revolution: because of their understanding of the role of independent finance and the circulation of money in capitalist crises; because a programme of rapid industrialization and structural change required the ability to direct new investment, and therefore credit; and because the basis of solidarity in the revolutionary coalition of industrial workers, peasants and farmers, small producers, and other wage- and salaried-employees was stable purchasing power, and therefore the capacity to maintain a stable value for the currency and prevent inflation, debt, and financial crisis. Its characteristics were the elimination of markets for production supplies (labour, capital, and land); wages calculated to serve as incentives to increased output at the same time that they kept in line with real productivity; unified and uniform accounts for the entire economy; a cash plan based on the plan of production; and strictly balanced budgets of both firms and governments.<sup>4</sup>

The unity principle in both state and economy — one party rule and

social ownership — and the strategic mentality of revolutionary parties contributed a systemic character to economic policy. Like developmentalist states everywhere, the approach to development chosen in the offices of state becomes a society-wide programme for change. Assessments of that programme seek systemic explanations. When the ruling party decides to change economic strategy, it sets in motion an entire series of alterations in the organization of the economy at both the macro and micro levels so that the instruments of incentive, implementation, and supervision are appropriate to the new strategy. Adjustment is a society-wide project.

If the instrumental and institutional elements of these states were based on the principle of unity, but the politically active divided over the optimal approach to development, how do choices between competing strategies of accumulation and shifts between dominant factions occur? The internationalism of **Marxian** interpretation and the nationalism of the states they created continues to dominate perceptions after the revolution, focusing the attention of party leaders and other influentials on international standards. They could not separate their goal of improving the living conditions of working people from "catching up" with the West and competing successfully in the international arena. Only when the domestic economic strategy appears to fail internationally is there sufficient pressure at home to resolve the many specific disagreements with the prevailing policy and build momentum for a reform of the system itself. Declining growth rates relative to other countries, chronic trade deficits, declining foreign reserves that interfere with critical imports, perceived threats to national security or of falling behind technologically, whether measured by armaments or trade and production of leading firms, rising costs of defence or strategic commodities, or new opportunities in trade: these are the generators of internal reform. And because the primary international characteristic of socialist states has always been their relative disadvantage — it was the birthmark of their revolutions and after World War II became the primary organizing factor of *pax Americana* — the dilemmas of adjustment to international changes (their reading of opportunities as well as threats and costs) remains the dominant force for domestic strategy. Similarly, the current turmoil in the communist world is inseparable from changed international conditions after 1978-79 in both trade and security. The response was a shift back to the liberal, reformist strategy, with the consequence in Eastern Europe of the end of communist party rule altogether and in the Soviet Union of the contradictions and conflicts all too familiar from Yugoslavia.

### *The Yugoslav Model*

The Yugoslav party stands apart, not because of its early break with Moscow, but in the early dominance in party policy and state institutions of the approach to economic development and to socialism of the "reform", or liberal faction. This dominance did not emerge without a struggle and without confronting international conditions that favoured the opposing strategy and faction, so that the reformed state of 1952 was in fact a composite of both. Nonetheless, each stage of institutional change in the economy and the state, sealed each decade by a new constitution, was written by these liberal reformers. Moreover, the leadership pursued this reform strategy with an economy open to world trade and finance and for the most part in cooperation with western countries and institutions. This makes its forty-odd years of experience virtually unique and more directly relevant to the post-Cold War international environment than any other.

This early victory led to a system with significant differences from the Soviet Union. Above all the institutional ground of the developmental faction was thin. Central planning and its control over supplies and production decisions also never took institutional hold, although the institutions of the first step toward a socialist market strategy — the institutions of monetary planning and the cartellization of product markets by branch organization of producers' associations — have been extremely resilient. There was less need for the massive de-legitimation of "Stalinists" as occurred under Khrushchev and even more so under Gorbachev. Arguments against them in the first decade of power played on the popular association of defence and centralism with the Serb-dominated pre-war Kingdom and the substantial economic interest of many Serbs (but by no means all) in a strong military, investment in agriculture, and central fiscal capacity. From then on the debate over economic policy and institutional design could not be disentangled from a quarrel between nations and between central authority and "democratic" impulse, forcing the developmentalists and their very real concerns into defensive retreat. The smaller size of Yugoslavia and its greater vulnerability to external shocks on the economy also exposed the reformists' programme far more to dependence on international conditions than a country the size and international weight of the Soviet Union. This is particularly the case with the significance that balance of payments deficits and assessment of their cause must necessarily play in economic policy.

Nonetheless, the logic of the liberal programme in Yugoslavia that guided the Yugoslav leadership for four decades is the same as the strategy guiding the current Soviet leadership. To understand its internal contradictions and problematic practice, one must first have

in mind its dominant model of intention. How that model plays out in practice also depends on the alliance of social forces behind it in each country, and the particular international conditions at the time of its introduction and resurgence.

The liberal "reform" programme in Yugoslavia originated before the war and revolution among leaders from the more developed regions of Slovenia and Croatia: an industrial working class employed in processing and light manufacturing; external trade, communications, and cultural links with Europe; and neopopulist agrarian parties which had organized large sections of the peasantry as well as local cooperatives — all this gave salience to the Bukharinist (or as they saw it, Leninist) strategy that would make the more modern manufacturers and commercialized farmers the engine of the economy's growth. Material self-interest and cultural preference have reinforced this coalition over time with a shared orientation to the west and resentment at large expenditures on developing capital goods and primary commodities at home.

At the same time, like **Lenin's** programme of 1921, the immediate cause of its selection after the war lay in international conditions: the need to stabilize the economy under pressure of a serious balance of payments deficit and unfilled trade agreements — both of which had to be met if the conditions for national security set by the leaders' policy of peaceful coexistence and a strong national defence were to prevail. Military assistance from the west allowed them to end the mass mobilizations and investment in military industries and stockpiles of 1948-1949, and western financial assistance (the IMF especially) and food aid came with conditions that reinforced the weight of the northerners' liberal approach in responding to the greater demand for exports and the inflationary conditions in domestic goods markets. As in Russia in 1921-1923, the choice of a Bukharinist strategy in Yugoslavia could be justified as, and indeed felt sincerely to be, the only choice where circumstances required radically increasing additional output from existing resources.

But this was more than a tactical choice, or one based solely on reconstructing a political alliance and base of support.<sup>3</sup> Its approach is based on an entire conception of the best way to develop an economy, independently of conditions calling for **austerity**.<sup>4</sup> Implementing this conception involved more than a change in the central party line and the defeat or concurrence of those who held opposing views. To put in place the institutions it required, legislation and constitutional revision created a "new economic system" and its accompanying political reform.

In **Marxian** terms, the core objective of the liberal strategy for economic growth is to reduce the socially necessary labour time of the

economy. The source of accumulation at the level of the firm and of society is higher marginal productivity of labour and lowered costs of labour in production. Relative labour cost can be reduced within production by increasing mechanization and technological modernization, labour's skills ("human capital"), the efficiency of the productive process, and work effort. At the aggregate level, labour costs can be cut by finding cheaper sources of wage goods so that workers' consumption standards rise without consuming a greater proportion of output. The "aggregate wage fund" can also decline if the non-productive use of economic resources, and above all that of labour, is minimized. The more human effort contributes to the sum of goods that will be consumed, and the less people are engaged in activities that do not yield a consumable product, the higher will be society's overall growth and the possibility of rising standards of consumption for all.

As this economic strategy unfolded institutionally in Yugoslavia, one could see a social vision emerging of the early **Marxian** model of an association of free producers. The state would diminish as a force extracting surplus value, and become a small administration to ensure the basic condition of their mutual exchange — monetary stability — and a set of deliberative councils of elected representatives of producers who agree on policies of mutual interest.'

Although the blueprint of constitutional reform actually looked very much like this ideal, the structure of society it imagined could also have been designed to satisfy the members of a coalition of the political forces put together for revolution in Yugoslavia. The core was to be a socialized public sector of firms producing final goods for domestic consumption and export with the most advanced machinery available, managed by a staff of engineers and economists, kept in check by representatives of skilled industrial workers. The core is surrounded by efficient private farmers and craftsmen organized into local cooperatives, producing for the market and for socialized sector firms on long term contract. Movement of people and goods across borders is free with few regulations. At the same time the definition of community for this worker-peasant, or Marxist-populist, alliance shows in its mix of internationalist and nationalist principles the hard reality of revolution in the east where the history of state-building and capitalist expansion, the persistence of war, the political and economic importance of land, and the cultural and political influence of the liberal intelligentsia forced the national question near the top of the agenda.

The fundamental question facing leaders who held this ideal was, of course, how to achieve its objectives. Like all liberals elsewhere, socialist market reformers believe that the solution lies in individual

economic interest. A system that structures its incentives to produce — and produce efficiently — around material self-interest will be most effective. Decisions on the use of economic resources should be made by those who have a direct economic stake in how they are used. Those who actually produce value, therefore, should be given the autonomy to make economic decisions. Workers will produce more per unit of labour if they expect a proportionately higher wage, and they will contribute to reducing costs if they are given a voice in production decisions. Managers will organize production more efficiently and respond to market demand if they see the consequences in profits and the revenues they can retain for themselves and their firm. Farmers will produce and market higher yields if they can increase their market income thereby. Although largely unspoken, this belief in the rational behaviour and potential initiative of "direct producers" left more or less alone to respond to material incentives has the character of a political faith.

The more directly related is this material return to the behaviour that enhanced value, moreover, the more effective it is seen to be. Variable wages and bonuses should replace political campaigns and status rewards. Wage differentials should directly reflect the embodied capital of skill and expertise as an incentive to skilling. While producers should orient their economic calculation to demand and realization in goods markets, the allocation of labour or capital by a free market would only distort the direct relation between effort and reward, cost and use. Exchanges between producers should be on the principle of mutual interest, and thus cooperation and bilateral contracts should replace both market and state allocation. Socialist liberals propose a system of "socialist commodity production", not a market economy.

This calls for a very different system of macrocoordination than the administered instructions and centralized accounts of developmental planning. Financial instruments take over the function of transmitting information, coordinating relations between enterprises, and enforcing state preferences over investment and society-wide rules and regulations. Autonomy over supplies and labour deprives the ministerial hierarchy of its instruments of influence and supervision. The strategy of accumulation thus has direct consequences for the organization of the economy as a whole and the role of the state in it. Although political authorities do not abandon their right to formulate economic policy or their interest in the health and direction of the economy, they must give priority to the value of the currency and monetary stabilization because their economic power is only as great as the monetary stability that their financial system demands: that the money in circulation never be greater than that

supported by real value produced and that the total wage fund be kept in balance with the fund of commodities available for purchase.

There is a potential conflict in this strategy between the macro-economic concern with stability and a shrinking wage fund, on the one hand, and the role of direct and positive economic incentives to workers, managers, and independent producers and operational autonomy over labour and supplies in increasing productivity, on the other. The resolution, as Economics Minister Boris Kidric was fond of repeating in 1949-1950, is "economic coercion".<sup>8</sup> Balancing the initiative that comes from greater latitude of choice with responsibility for the economic consequences of those choices, whether good or bad, economic units are made financially accountable for their budgets. In the language of economic reformers in Eastern Europe in the 1970s and 1980s, both increased production to relieve shortages and limits on the aggregate wage fund to prevent spiralling inflation require "hard budget constraints". *Khozrascët* should apply to all using economic assets — not only firms and households but also governments, independent social services, and other non-profit organizations. Some supervision of financial responsibility is possible through banks that issue cash and send their accountants periodically to check the books of public sector depositors, but to retain the initiative and incentive to use resources wisely, authority over decisions on that use has to lie with the budgetary unit itself. Socialist liberals expect economic actors to make the same rationalizing and budget balancing calculations as capitalists — deciding how to make cuts when profits decline sufficient to threaten investment and trading off wages and employment — but they want to hand this authority to all those who "add value" with socially owned assets. *Labour is expected to think like capital.*

In Yugoslavia, the liberals secured control over institutional design as well as economic strategy in a time of severe shortages of both goods and skilled labour. Unions were still active in ways developed under capitalist ownership, and managers were acceding to wage demands from skilled workers in short supply. In order to limit the wage fund and stabilize the economy at the same time that they increased rapidly the productivity of domestic firms, leaders sought the assistance of workers themselves. The propaganda advantage of the slogan, "handing control of factories to the workers" (and farms to the farmers), obscures their real purpose in introducing workers' self-management: extending the "economic coercion" of market profit and loss to the employees (and above all production workers) of firms.<sup>9</sup> Restraints on consumption until justified by real increases in production and marginal output; cuts in labour costs by firing less productive workers, lowering wage rates, or reducing non-wage

benefits; and intensified work norms remained managerial decisions, but they had to be reviewed and approved by workers' elected representatives. Unions would then organize the election of workers' councils and could advise and mobilize on ways to increase productivity. Democratic participation was a way to buy labour's support for the sacrifices needed to bring accounts into line with what was being produced and sold and to increase surplus value; and it was a way to check managerial power without the time lost and potential inflationary pressure of union-led bargaining and strikes. Self-restraint on wages might be voluntary if it promised greater return later on, and appealing to workers' economic interest yielded a more effective guide to specific decisions on layoff and dismissal.

This principle of financial self-management, and its necessary component of democratic participation in internal decisions, was first applied in Yugoslavia in critical export firms but was gradually extended to all workplaces that could be organized according to autonomous budgets. Not only does democracy enter the workplace; public functionaries were also expected to think in financially accountable and profitability terms. Non-profit services, such as schools and hospitals, might not add real value, but they can improve the use of the resources granted them from tax revenues if motivated by the right to retain a portion of their savings. Governments still spend monies obtained by taxing producers, but limits on those revenues and the legal obligation to balance the budget — with the participation of tax and fee payers — can encourage less potential waste. Parliaments elected from those who add value, because their direct economic interest in the use of their surplus should make policy and its financing economically rational, become ever more important in reviewing and debating policy. Executives composed of councils seating representatives of societal groups with economic interests (governments, unions, branch and commercial associations of firms) replace the ministerial hierarchy of decision and surveillance of a planned economy. Units of the economic ministries, in turn, are transformed from executive organs into properly "economic" units operating on commercial terms.

The attitude toward labour productivity at the core of this strategy for economic growth includes a notion of what is productive that requires additional organizational restructuring (in Russian, *perestroika*). To cut labour costs, firms are urged to reduce administrative and transfer costs by consolidating staffs and integrating vertically. Enterprises should employ internally the services they need, such as marketing and professionals (doctors, lawyers). Clerical and lower managerial staff should be transferred into production or dismissed. Less productive workers — almost as if

by definition, unskilled and semi-skilled workers, the aged, handicapped, peasant-workers who migrate between land and jobs, and women — should be sent to more appropriate jobs or fired.

This concept of productive labour is an old one, but its prejudice is a core of the classical thought that informs so much of the liberal strategy. Above all, the idea that bureaucrats and rents are a waste of productive resources encourages a deep antipathy to the state; political campaigns to reduce government expenditures and enterprises' taxation by cutting state functions become "anti-bureaucratic" crusades. Most vulnerable is the military, which becomes the symbol of misuse and waste. But transfers of all kinds, including ones necessary to production such as monies for infrastructure and social services, as well as income supplements and welfare benefits, come under the axe of the orthodox budget balancers, are assigned to subordinate governments or to firms, or become independent funds and their offices in order to remove them from the central state budget and make them economically accountable. Even the party apparatus is "sent down" into the factories and local governments which will pay their salaries to tie their personal interest in the economic success of their employer to their tasks of supervision and persuasion in the economy. Democratic participation, political activism, and freer speech and criticism (in Russian, *glasnost*) are not only intended to gain popular support for the austerity of increased accumulation. The voice of the people was seen as a powerful tool of enforcement "from below" that involved no state office or budgetary penny for salaries and as a way to transmit information about citizens' preferences directly, without fluctuating prices.

Another way to cut wage costs so that wage incentives to workers retain their force is through lower prices (or higher productivity) of wage goods. Foreign trade and household agriculture hold a special place in the liberal strategy for this reason. If imported wage goods are cheaper than those produced at home, they should be substituted. Price competition with efficient foreign firms — only possible with liberalized trade — is an additional way to coerce firms economically to increase their efficiency without abandoning socialist methods of accumulation at home, such as the strict limits on price competition in production supplies between domestic firms, economic concentration for purposes of rationalization, and redistribution of rents from natural monopolies. Private plots for garden vegetables and livestock and financial autonomy and accountability for agricultural and marketing cooperatives can encourage farmers to increase their marketed yields, if necessary by working longer hours or other forms of peasant self-exploitation. The farms are also the logical place for labour dismissed from the industrial sector so that budgetary

reductions from welfare and layoffs of the "less productive" do not create unemployment (in the sense of people without some source of subsistence). Those without land can turn to petty services and trades that the freed consumer goods market encourage. Indeed, the liberals place substantial stock in the growth and "initiative" of independent (private) petty bourgeois activities — the sphere of "small firms" and "second economy" — that improve the range and lower the cost of consumer goods without any drain at all on the state budget or public sector firms.

Finally, in defining the political borders of this economy, liberals attempt to recognize simultaneously the global operation of economic competition and technological progress and the national definition of community. One need not enter the tortuous history of the Yugoslav Communist Party's approach to the **national question** to note that this approach settled by 1940 on the Croat and Slovene version against objections. Nations, in line with their view of **Marx's** analysis, are not classes but economic spaces that, as historical-territorial units with a culturally-defined collective consciousness and sense of unity as a "people", have the right to administration. As the product of bourgeois competition this form of the nation was more advanced on the road to global community than the feudal form (tied to land-holding) still dominant in the southern regions such as Macedonia and Bosnia; their union into a multinational federation for mutual benefit was only the next stage on the road to this global community. National minorities ("nationalities" as opposed to "nations") resident within a nation's historical territory have a right to separate cultural expression but not economic governance.

This logic necessitates a federal constitution. Its premises are **the** same as the party's stance toward the rest of the world: a strong "national" defence based on local territorial forces, and the presumption of peaceful coexistence and economic redistribution from rich to poor as the basis for peace and prosperity. Liberals and developmentalists differ on the content of this federal arrangement, however, and in the early days the goal of developing Yugoslavia as one economic space led them beyond simple redistribution between nations to Lenin's formulation of a federal division of labour according to **Marxian** schemes of reproduction. By this, the federal government owns (with its attendant right to revenues and obligation to invest) projects for defence and country-wide development. Republican governments own the manufacturing, agriculture, transportation, and other activities-of Department II located in their territory. Local governments receive jurisdiction over local consumption — local roads, elementary schools, trades and services, and small consumer goods — as well as relations between the

socialized and private sectors (basically, industry and agriculture).

For the liberals, however, the same logic for producers' operational and financial autonomy should apply to republics. Governmental decentralization, fiscal federalism, and republican control over economic assets allegedly encourages economic rationality — on the grounds that the closer the responsibility for economic resources is to those who actually employ them, the greater the care in their rational use. Moreover, activities under republican jurisdiction are seen as the engine of growth while those of federal jurisdiction are a drain on that growth. Thus, the economic attack on the state does not apply to republican governments; drawing on the arguments of political and cultural nationalists, they see the federal government — Yugoslavia — as an artificial creation against the natural and legitimate communities of nations ("peoples") in the republics. The liberal strategy even gave new life to the territorial governments of the republics and localities in several ways: the attack on the ministerial hierarchy as a non-productive method of economic coordination; the shift in **policy**-making to parliaments and deliberative councils of delegates chosen by republic; and the expansion of foreign and private markets and a private sector to discipline the public sector and receive its rationalizing expulsion of less productive workers and welfare claims requires economic coordination on territorial grounds, not the branch ministries of the public sector alone.

### *Contradictions: From Model to Reality*

Much is known about the problem of a pure liberal strategy for economic growth, from the **Polanyian** critique that markets need social supports and a political counterforce of state policy to keep them functioning properly,<sup>10</sup> through the Keynesian critique of the many aggregate paradoxes of a system of autonomous actors, such as the paradox of thrift to explain the failure of investment in business downturns, to the theorists of unequal exchange in the international economy. These receive little attention in states of reform communism, and one suspects this is because they believe in the socialist institutionalization of that strategy as safeguard against its problems.

The application of this model to Yugoslav reality over the past four decades has revealed a host of problems, however. As a strategy favouring the most developed, it did not take into account the range of underdevelopment in Yugoslavia, its internal heterogeneity, or the extent to which these differences were geographically defined. The liberal economic approach together with republican autonomy produced inequalities between firms, in relation to their initial fixed assets, and also between the republics.

Above all, the idea that the international economy could serve as a source of developmental finance, cheaper wage goods, advanced technology, and competitive stimulus to domestic economic efficiency in a world where socialist states remained outside major trading blocs and were subject to both regularized and quixotic trade discrimination after 1947, and where the government's protection of living standards and employment at home depended on monetary control and preventing domestic price competition between firms and labour, turned out to be wishful thinking. Adjustment to trade deficits and foreign debt preoccupied the country for the entire postwar period, and the choices alternated between delay, short-term administrative and political control over demand and social unrest, and orthodox stabilization that hit the poorest and least developed the hardest. While some had no option but economic restraint, those with greater influence created their own financial instruments and contributed to the inflationary spiral induced by their form of foreign integration. The loss of control over money, above all to foreign creditors, undermined the economic basis of stability in both the economy and the state — the economic security and predictability necessary to rational calculation, of stable growth in consumption across groups that was the basis of solidarity in their political coalition, and of manageable conflicts over distribution.

These two problems eventually exposed the highly problematic concept of the state embedded in the strategy's mix of socialist and liberal assumptions about economic behaviour. From unstable compromises and unending dissensus, to growing inflexibility of economic adjustment, and ever declining authority of state and party, the instabilities and vicious circles of its political-economic system found few counteracting influences from creative political action.

Critical to the early success of the liberal strategy (as recorded in growth rates) was the investment in mining, agriculture, and producers' goods in the brief attempt to build military self-sufficiency in 1947-49, and the international conditions of the 1950s. This was an era of development aid to poorer countries and American military and economic aid to support its strategic interests and anti-communist policies. The foreign financing necessary to get this opening strategy off the ground was there. By the late 1950s, the terms of foreign financing changed dramatically — loans of shorter maturities and higher rates, and increasingly bilateral, suppliers' credits between firms. Expectations that the expansion of the European community after 1958 and Yugoslav membership in GATT, achieved by 1965, would give them greater access to western markets were disappointed; continuing trade discrimination and protectionist barriers made it extremely difficult to reduce trade deficits and repay credits, while

import dependence rose and the frequent trade recession in European and world markets during the 1960s were transmitted ever more readily into the domestic market.

This did not change the Yugoslav orientation to the international economy as a source of goods to increase productivity at home, but it began to require the adjustments in labour that the socialist movement was pledged to prevent. Reformers emphasized the necessity of cutting labour costs in production further to be internationally competitive. The remittances of Yugoslavs migrating temporarily to work in northern Europe came to foot nearly half the bill of the growing import dependence for intermediate goods of firms, and their exodus had the side effect of diluting conditions that might have led to political organization against the steeply rising unemployment. Macroeconomic stabilization policies to reduce rising domestic inflation followed the orthodox demand-restricting and **budget-cutting** approach of their domestic monetary system while they increased supply-side incentives to production. With the rescheduling of loans after 1969 and the hyperlending of recycled petrodollars to developing countries, the influence of international finance (especially the International Monetary Fund) grew, strengthening this orthodox approach, giving the liberals substantial foreign allies, and removing, it appears, any pressure for political reassessment of policy. Stabilization policies and their stop-go cycles of recession and unintended expansion became the order of the day after 1970 without reducing the deficit or need to finance it further.

If one read the rhetoric of domestic politics and economic debate in the 1970s, one would be convinced that the reformists' "**market**" strategy had been defeated by popular reaction and replaced by a system of politicized negotiations and excessive political centralization and economic decentralization that interfered with any rational calculation of the kind reformers had sought. What really changed, however, were the supply shocks and their accompanying price rises in the world economy, and thus the interests of the most influential producers in finding cheaper, more reliable sources of raw materials (and even some producers' goods) at home and in producing for export goods whose prices were rising and, unlike more highly processed manufactures, were less vulnerable to unpredictable trade barriers. State preoccupation with the balance of payments doubled the interest in changing investment policy, and its **sectoral** shift gave greater importance to lowering costs of production and quantity increases than to revenues on consumer goods markets. Popular anger at rising inequalities, unemployment, and private wealth helped to ease the politics of this transition with an attack on **commercially-oriented** managers and liberal politicians.

What did not change was the concept of growth through micro-productivity, direct incentives, and budgetary discipline that had always defined the liberal reformists' strategy. The mergers and concentration of the 1960s to save on administrative costs, shift redundant labour, and gain market advantage were now attacked for diluting incentives to greater productivity. Firms were subdivided into units that "produced market value", and could therefore have an autonomous budget, so as to make incentives and accountability more direct and to find in this anti-trust drive toward smaller units a domestic rather than foreign source of competition. That this period also saw a rise in employment figures (with no compensating fall in unemployment), alongside stagflation, placed Yugoslavia squarely in the camp of most of the world's economies as they struggled to respond to the same global conditions. By the early 1980s manufacturing firms oriented to western markets (especially in Slovenia), chafing at productivity comparisons that showed their relative decline, and harsher conditions from foreign commercial banks and the IMF over the foreign debt and terms of rescheduling, succeeded in shifting the policy agenda to technological modernization through imports, expanded exports to pay this bill and reduce the deficit, and more onerous austerity to stabilize the currency.

The full extent to which international conditions defined shifts in economic policy and prevented any change in the ruling strategy cannot be explained without its domestic political counterpart: the ambivalence toward the central state and quarrels over redistribution. The international functions of sovereignty remained in the **scaled-down** state — its responsibility for the country's balance of foreign payments, its legal guarantee of foreign inscribed debt, both public and commercial, and its protection of territorial integrity and national security. Yet neither the authority nor the revenues to perform these functions went unchallenged. Disagreements over defence policy had been "resolved" in the 1950s by combining a standing army with local territorial defence forces, but once the nuclear goal was abandoned for conventional warfare (assisted by the 1968 invasion of Czechoslovakia), the supremacy of the army was increasingly challenged. Only as long as **Tito** was alive was there an arbiter for Slovene and Croat demands for sovereignty of the territorial militias, cuts in the military budget, and republican precedence in cases of disagreement.

Even more frequent shifts occurred in the foreign exchange regime defining internal allocation. The importance of foreign exchange for production supplies and technology, the constant shortfall of export earnings against imports, and the insistence on nonconvertibility to retain some domestic control over living standards, employment, and

economic stability turned disputes over access to and the right to use foreign exchange into the bitterest of quarrels. Yet each successive regime reduced the government's control further: ever greater liberalization of foreign capital flows to entice foreign investment; allowing firms to enter foreign capital markets freely, only to have European banking circles in the mid-1970s insist that the government regulate requests for loans that had become excessive; the decision after 1978 to divide the balance of payments into separate republican accounts to break the deadlock over responsibility for the deficit; and periodic efforts to recentralize control or create a foreign exchange market during the 1980s.

These quarrels reflect a larger unresolved problem of the state's authority to tax enterprise profits (surplus value) and the intentional limits on the revenue base of the federal government. Although it remains responsible for national defence, major developmental projects subject to republican free-riding, and currency stability, the state must bargain for income with representatives of producers; is obliged by the constitution to balance its budget; and cannot borrow from nonexistent capital markets. If it prints money to cover deficits, it only delays, and harshens, the obligatory budget-cutting of a stabilization programme. By the 1970s, there were few line items of the federal budget that had not been divested into financial self-governance. Thus, the federal government has always sought foreign funds to "supplement domestic accumulation" and to replace the domestic monies it cannot obtain. World Bank loans for major **infra**-structural projects such as roads; military assistance; public credits; bilateral trade agreements (not always fulfilled by other countries); and IMF balance of payments financing all have contributed their share to the foreign debt from the trade deficit, enterprise borrowing, and suppliers' credits.

Where the original objective of the socialist monetary system was to prevent the devaluation of labour power through producers' control and to protect the domestic economy from international trade cycles and foreign financial control, the opposite occurred. Frequent devaluation of the exchange rate, policy-induced recessions and with it declining real wages, rising unemployment, and by the **mid-1980s**, triple digit inflation, not only became a normal part of the economic scene, but disagreements about how to address these problems were only resolved (and that temporarily) by the pressures of international finance. The domestic economy came to reproduce cycles in the global economy rather than to protect its producers against it.

It is often said that these problems of macroeconomic instability and debt are the result of an insufficiently independent and disciplined Central Bank. Apart from the opposite assumption of the Yugoslav

liberal system, that only if producers controlled finance could stability result, this commentary raises the difficulty of the system's assumption that producers and governments will be able to agree on mutually beneficial outcomes if they pursue their economic interest and have the right to self-determination. In the first case, the liberal strategy favours producers with greater initial assets, with links to the west, and with goods that can be sold abroad; developmentalists persist despite their institutional disadvantage because they represent another view and other interests. Since most distributive issues involve real conflicts of interest and disagreement, **pareto** optimal decisions are in fact quite rare and discussions can deteriorate rapidly into questions of fairness and accusations of injustice.<sup>11</sup> In federal offices, which are councils representing the republic governments (equally, rather than proportional to population), or in negotiations between producers, the discussion and bargaining takes time. Contracts are often out of date by the time they are signed, and the frequent resort to compromise encourages parties to cheat or seek alternative outlets. The governing board of the Central Bank, as a council of republican representatives, finds it very difficult to formulate a monetary policy on which all will agree.

Some of this difficulty of a system that eschews both central planning and market allocation for cooperative links between those who produce value — "the free exchange of labour" in an "association of free producers and free republics" — could be resolved by clear procedures and habits of mutuality developed over time. Yet government firefighting in response to the immediate pressures of deadlocked negotiations over economic policy and budgets, spiralling conflicts, inflation, and above all balance of payments deficits continuously interrupted the expectations of regular economic activity, and quarrels over principles of distribution have led to such frequent changes in the rules of allocation (of foreign exchange, of development funds, of taxes, of enterprise income) that stable procedures have little time to develop.

One of the reasons that these quarrels are difficult to resolve and rules can change so frequently is the virtual definition of ownership as the right to control realized surplus value (the net income after material costs and obligatory depreciation of the firm). Each person employed in the public sector has a right to a personal income commensurate with his or her contribution to that realized value; governments have a right to a portion of income earned on their territory; and so forth. But what is the source of value added? How ought income to be valued? Within firms, dispute has long raged between those who view income to be the result of lowered costs of production, and therefore due to the engineering staff or to

production workers who in different ways **increased** output per unit of labour, and those who insist that income is realized sales from meeting market demand, and therefore the commercially-minded manager, the economists, and the marketing and sales staff. The basis for wage differentials according to skill levels, and whether the difficulty of a task (production workers) or its complexity (managers) is a better measure of added value, also led to disputes on wage determination.

Between firms there are disputes about relative contribution to the more prized final commodity. The pressure from more successful firms producing final goods for consumption and more developed republics with higher foreign currency receipts to retain an ever larger portion of their domestic and foreign market earnings against fiscal redistribution during the **1960s**, for example, caused an uproar among producers of raw materials and intermediate goods and republics with less access because of production specializations and historical legacies to hard currency earnings. Had they not also contributed to the final product? The unsatisfactory solution in the 1970s and 1980s was to require that contracts between firms, whether for supplies or joint ventures and investment, include terms over the division of ultimate profits according to relative contribution.

Quarrels between republics over economic policy or redistributive transfers (for development aid, budgetary supplements, natural disasters and emergencies, or federal projects), in particular, tend to deteriorate into disputes over rightful ownership and efforts to realize their claims: by a progressive reduction in such transfers, by frequent charges that other republics are "laggards", and by a host of protectionist measures (especially by the wealthier republics) to keep revenues and investment at home. The division of product markets into non-competing territorial zones with ministerial decentralization and republican autonomy after 1950 has been reinforced ever since by local and republican government reaction against firms from outside their territory; by campaigns to get locals to "buy national" (Croatian, Slovenian, **NovoSadian**, Serbian); and by producers' enforcement of rules against "disloyal competition" (price wars). Trade wars erupted periodically between republics, particularly in the 1980s. By the **mid-1980s**, wealthier Slovenia and Croatia were refusing to pay their share into the federal budget and by 1990 they chose to pursue complete independence if they could not get a confederal constitution that gave them full sovereignty.

A consequence of decentralization, divestment of federal economic authority, and enterprise control has been, ironically, to increase the tax burden of firms and the redistribution they criticize. The burden of public goods and externalities fell heavily and unevenly on local governments, exacerbating the inequalities that already exist in

development levels and local resources. Obligated to balance their budgets, and with the authority to tax as the country's tax collectors, local governments devised ever more taxes on firms (based on the wage bill, or net income of the firm), local bond issues for schools and hospitals, and fees and taxes on the private sector. This significantly dampened the development of the private sector, despite policy-makers' wish. Enterprises were frequently short of working capital to pay workers and had to beg banks to extend credit or shift the burden onto other firms with involuntary trade credits of unpaid obligations. The poorer the locality, the more local politicians and enterprise managers needed each other and the greater were the inducements to corruption and personal networks of mutual back-scratching and power. At the same time, because banks are governed by enterprises with voting power in direct proportion to deposits, credit decisions have tended to favour the largest firms — all within the republic borders of their jurisdiction — and the investment choices of the republican governments, whereas the risks of bank failure or the debt of large firms are socialized among all enterprises, large and small, within the republic. Because local governments are responsible for unemployment, they do everything possible to forestall bankruptcy of firms with temporary direct rule, restructuring, or loans, so as not to find their budgets and social service agencies overwhelmed. Ultimately, these practices move through the banking system, and the National Bank must choose between monetizing the accumulating debts of its member banks or risk a tidal wave of bankruptcies throughout the economy and renewed recession.

The microeconomic assumptions of macroeconomic stability, that enterprises and local governments would and even could be conservative, responsible financial managers, who balance budgets and make appropriate economic calculations regardless of the politics of distribution in recession and external economic shocks and demands, clearly failed in Yugoslavia. Over and over, the central government had to assert its responsibility for the balance of payments, the foreign debt, and the value of the domestic currency with demand-repressing policies — both monetary and physical restrictions — while supply-side policies aimed to revive domestic production and restore monetary equilibrium. Still assuming that production would respond best to material incentives to producers, this meant cutting governmental budgets and resources for investment first. Monies for transportation, basic human services, and collective goods were progressively cut, handed over to lower governments or independent funds (restricted in use and transfer to their original purpose), or abandoned to private sector mobilization ("the market" where those who could pay would restore the incentive to producers),

with the eventual effect of progressive neglect. In place of the equilibrating objective, ever more frequent stabilization programmes addressed to external deficits and internal inflation created a downward cycle of recession, relieved only occasionally by monetary expansion accommodating debt of the previous period (rather than of Keynesian inspiration).

Its economic power contingent on monetary stability, the federal government tried to supplement its declining authority with the remaining political instruments under its control — the standing army and federal police powers that remain after substantial budgetary cuts, and the discipline of party members insofar as they remain unified and loyal. But monies for the military, authoritative positions and jobs for party cadre, and international diplomacy all require control over some economic resources. The idea that the party could remain a united force was in conflict with the republicanization of cadre policy, their assignment to firm or locality where common interest with their employer was meant to ensure rational decisions, and their loss (in 1951) of special privileges in goods markets. And because the army became increasingly entangled with domestic events, through civil disorder over growing inequalities (from those resisting redistribution and those in need of more), there were heavy political costs as well. The more the state is equated with coercive force, even when this is used to protect minorities, the more the legitimacy of its existence and expenditures are subject to question.

In the end, even the Yugoslav concept of democracy fell victim to its definition by the socialist liberal programme as a tactic to increase productivity with non-economic rewards: that people would find in the rights to democratic participation in decisions on production and distribution a substitute for immediate pay and a carrot for "waiting", for accepting the longer time horizon of capital. Where they sought to invigorate the "spiritual life" of the people (as Gorbachev also said frequently in 1988-1989), more intense consumerism resulted. And under prolonged recession and austerity policies, worsening shortages, and rising inflation, democracy became a burden, not a privilege. People used their democratic rights to claim fully the economic assets they are said to "own". In place of greater participation in public policy or social problems, they sought greater autonomy for their firm or national community from the state so as to be able to hold onto "their **earnings**" against their redistribution elsewhere. Yugoslavs mourn the loss by the early 1960s of a time when public service and individual work alike were motivated by devotion to the collective enterprise they shared, regardless of the immediate pecuniary reward, but few propose to slow the momentum away from autonomy. Instead the system of microrationality and decentralized

budgets places the locus of political activity within wage determination (usually, firms) for workers and within republics for citizens. Free enterprise (and managerial power) and nationalist independence became the choice of radicals, while the social base of any society-wide movement disappeared.

The particular choices of an orthodox stabilization policy also explain the most problematic social conflict of the liberal strategy. Although it is often said that reform's greatest opposition comes from workers threatened by unemployment and bureaucrats losing power, it is the professionally-educated middle class — the original support troops of liberalization — who chafe the most. Highly schooled and urban, with expectations of status in employment commensurate with their educational credentials, holding onto precious housing in ever tighter housing markets and with few opportunities to return to the countryside, they complain when their salaries diminish in comparison with private sector incomes, when their relative advantage over industrial workers is undercut by inflation, and their children increasingly join the ranks of the unemployed as the attack on "bureaucracy" and **"non-productive"** budgets reduces expansion in white collar jobs. Although they have benefited from the wage gains of industrial workers on which their salary rates are based, they are also dependent on workers' collective bargaining for those gains.

Unlike the unskilled worker sent into private employ or the bureaucrat reassigned to local jurisdictions, the flexibility of adjustment to intensification and orthodox stabilization in this case affects the most articulate social groups. Where budgetary restraints reduce the number of local administrative and professional jobs, they are quick to use cultural and ethnic criteria — nationalism — for allocating jobs or mobilizing a collective grievance. And at the same time that the staff of enterprises is expanding with the transfer of ever more functions to the budgets and halls of firms, they succeed in directing public attention to the **"excessive"** wages and wage increases of industrial workers and their cause of price inflation. As we have seen elsewhere in central and eastern Europe as well as the more developed republics — Slovenia and Croatia — of Yugoslavia, it is a very short step in political logic to claim the failure of the reform strategy and the necessity of a "truly" liberal (i.e., fully capitalist) system.

Even on the eve of the final showdown on the Yugoslav state, the prime minister was fighting for one more version of economic reform, introduced, he said, to get renewed financing from western creditors. A constitutional debate of fateful proportions, between the two republics that would accept only a confederation of sovereign states and the four that wanted to retain a federal state, focused on

financing for the federal government, about whether monies for national defence, development aid to poorer regions, and agricultural investment could and should be found or whether the republics should be fully sovereign over their territorial defence forces, legislation, and budgets.

### Conclusion

Despite the many differences between Yugoslavia and the Soviet Union, the expectations and contradictions of the reformists' strategy are the same. In an especially revealing statement in 1989, Gorbachev explained the reason for reform by reference to changes in the world situation: "this was not 1968" when the Vietnam war and escalating rearmament created a hostile security threat. Even if the USSR can bear rising balance of payments deficits more lightly than Yugoslavia, the infusion of foreign capital and a growing private sector undermine the monetary control of a planned economy and turn the passive role of money into a monetarist orthodoxy that western creditors are only too eager to reinforce. Monetary "overhang" has similar origins, and the resort to political compromises and administered rationing of goods evidence of the weakness of the state, not its power. Already the conflict over national sovereignty between republics, and nationalities within republics, has grown at least as violent, and the stage of conflict over budgets and trade in goods has moved rapidly to legislative sovereignty and military authority — local defence and paramilitary forces versus the standing army and all-union police.

The loss of central authority cannot, if the Yugoslav example is a lesson, be recaptured. Observers of Yugoslavia long believed that **Tito's** charismatic authority held the system together, not recognizing the importance he placed on international diplomacy and the tensions he had to balance between his preference for the reformers' strategy and his role as head of state. And those who attacked his centralizing reactions found the tension reproduced by the international community that will insist on both — the continuation of economic reform and the reassertion of a stable currency and political order — as conditions for the yearned-for foreign investment, technological imports, and membership in the West and as someone to hold financially responsible.

### NOTES

1. The word is inconveniently the same in much of the region, permitting not only confusion but also political obfuscation.
2. A particularly useful introduction to the intertwining of developmental debates in this region, to Lenin's shared discourse of German developmentalism in

competition with Britain, and to neopopulist ideas can be found in Gavin Kitching, *Development and Underdevelopment in Historical Perspective* (London and New York: Methuen, 1982).

Cited and thoroughly discussed in Alexander Erlich, *The Soviet Industrialization Debate, 1924-1928* (Cambridge, Mass.: Harvard University Press, 1960), Chs. 1 and 2, pp. 3-59.

A useful introduction to this monetary system in practice is Marie Lavigne, "The Creation of Money by the State Bank of the USSR", *Economy and Society* (February 1978).

This is the usual interpretation: that the New Economic Policy aimed at regaining the peasantry, and that the Yugoslav reforms were an attempt to "return to the Yugoslav people" from domestically-grounded legitimacy after a period of anti-national "Stalinism" where relations with Moscow had defined policy choice and strategy.

This is one of the great achievements of Alexander Erlich's lucid study, *The Soviet Industrialization Debate* (see fn. 3), even if the absence of discussion about the political issues involved makes this less than obvious.

This was especially true of the writings and speeches of Edvard Kardelj, the main architect of the Yugoslav state until his death in 1979.

Boris Kidric, speaking on economic problems to the Third Plenum of the Central Committee of the Yugoslav Communist Party, the 29th and 30th of December, 1949, recorded in Branko Petranovii., Ranko Koncar, Radovan Radonjii., eds., *Sednice Centralnog Komiteta KPJ (1948-1952)*, Izvori za Istoriju SKJ, Series A:II:2 (Belgrade: Komunist, 1985), p. 391.

This interpretation of the introduction of worker self-management in Yugoslavia is based on archival research, the primary piece of which is the record of central committee plenums in 1949 and 1950 (see endnote 6), and discussed at length in chapters 5 and 6 of my manuscript, *Socialist Unemployment: Divisions of Labor in a Republic of Producers, Yugoslavia, 1945-1985*.

Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).

Or its ultimate criticism, that redistribution undermines the incentives necessary to rising productivity, as Milan Vodopivec argues with substantial econometric evidence in his Ph.D. dissertation, *Productivity Effects of Redistribution in a Socialist Economy: The Case of Yugoslavia* (Department of Economics, University of Maryland, Ph.D. dissertation, 1989).