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DECENTRALIZED COMMUNISM IN ACTION

A Look at the Confusion Produced in Yugoslavia
by Mixing the Philosophies of Karl Marx and Adam Smith

A Letter from Fred Warner Neal

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When in 1948 Yugoslavia was put in the position of a Communist state opposed to the Soviet Union, that was only the beginning of an anomaly that has become stranger and stranger ever since.

The most obvious factor in the anomaly today is decentralization. Yugoslavia has a planned socialist economy which is extraordinary in being almost completely decentralized, freed of state control, and as competitive as anything Adam Smith dreamed about. It would be too much to say that Adam Smith has replaced Karl Marx as the chief inspiration for Yugoslav economic policy; there is no private ownership of the means of industrial production. But traditional Marxist methods of operation have been abandoned, and in current official economic pronouncements one hears more about the profit motive and free competition than about equality and cooperation.

It is dangerous to generalize about any nation, particularly one as heterogeneous as Yugoslavia. Still it is difficult to consider postwar developments here without introducing the word "extreme." The Yugoslavs were extreme Soviet-type Communists. They went to extremes in centralization, in planning, in industrialization, in setting up a socialistic society. Then came the Cominform resolution, by which the Soviet Union expelled Yugoslavia from its Communist society. The Yugoslavs recoiled in shock, as it were, and when they recovered, they proceeded with rapidity to develop a new type of political and economic system. In so doing, they instituted a policy of decentralization which was as extreme as was the earlier policy of centralized control.

This has brought about a certain degree of ideological confusion. When in 1921 the Soviet Union temporarily abandoned socialism for the New Economic Policy, Lenin announced very clearly that it was only a temporary measure. The new economic policy of Yugoslavia is not temporary--at least in regard to industry; the situation regarding agriculture is less clear. There is another

major difference. The Soviet NEP permitted individual ownership of factories, et cetera, whereas in Yugoslavia industries are owned by the state. But each enterprise is so independent that, as far as the operation of the economy is concerned, this difference is obscured.

POLITICAL DECENTRALIZATION

The first step in putting the new policy into effect was the creation of workers' councils and the transfer of factory-management authority to the workers. There followed a decentralization of the government, which eliminated the bevy of ministries which had been created in the Soviet pattern to run the economy. The federal controls over various types of industry were given to the governments of the republics of Serbia, Croatia, Slovenia, Bosnia-Hercegovina, Montenegro, and Macedonia. This action was followed by a decentralization of the republics' governments, which turned administrative authority over to the People's Committees (Narodni odbori) or local governments. The city governments are in fact quite autonomous and have wide responsibilities not only for administration but also for economic planning and industrial operations. This grant of authority to the city level is an important part of the new Yugoslav political system; it is also one of the loose screws in the new economic machinery.

ECONOMIC AND INDUSTRIAL DECENTRALIZATION

The political decentralization was geared to the sweeping decentralization of industry and of the economy generally. To a considerable extent, all business enterprises in Yugoslavia, from factories to department stores, are free to do what they want to, as long as they make a profit. They can produce what they like and sell their products for whatever prices they like. They can fix wages, invest in new plants, and even export and import. The authority for running enterprises is lodged in the workers' councils. The federal government has no direct control over the creation of new enterprises or of their operations once they begin. To create a new enterprise, the republic parliament or the People's Committee forms an "investors' group"--usually comprising about a dozen engineers and technical experts--and grants it credit for building and equipping a factory. Once this is done, the enterprise automatically becomes a collective under a workers' council, and competes with other firms.

Of course the actual controls maintained by Belgrade authorities are greater than they appear to be on the surface, but for the most part they are indirect. The Communist Party and the trade unions, for example, exert pressure toward integration.

PROCEDURES UNDER THE ECONOMIC PLAN

Despite the decentralized, competitive system, the

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federal government does draw up a plan for operation of the economy and attempts to direct its fulfillment by a series of so-called "basic proportions." The plan assumes, from available statistics and from the plans of the republic and city bodies, that certain amounts of certain products will be produced. It does not, however, set production goals, and as one harassed Yugoslav economist put it, the economic plan is in many ways more of a prayer than a plan. The "basic proportions" under federal control include a limited control over total investment; allotment of a large sum of "directed investment" into certain specific plants; control of the interest rate on bank credit (the only source of new funds to an enterprise except its profits); some control of wages; and a flexible turnover tax on profits. Not officially included as "basic proportions," but nevertheless an integral part of the state economic apparatus, are an incredibly complex series of tariffs and foreign-exchange regulations.

The Soviet system, which involves a detailed plan specifying production goals for all products, utilizes "control by the ruble" as one check on production and plan fulfillment. The Yugoslav system is one of "direction by the dinar and control by the profit system."

The Yugoslav plan is worked out by the federal economic authorities in cooperation with republic planning boards. These republic boards base their plans to a considerable degree on planning by the People's Committees. The People's Committees in turn base their economic plans on the plans and capacities of the individual enterprises. Despite legal autonomy in planning, only one or two minor instances of disagreement have been reported, although it is only fair to point out that interminable conferences between planning experts at the various levels precede the final version of the plan which is adopted by the Federal Skupština or parliament.

For 1954, for example, the total investment fund was 340 billion dinars. Out of this, 110 billion came from the federal government directly in the form of credits to specific industries for specific purposes--the so-called "key projects" of industrialization. Amortization investment by individual firms amounted to 130 billion. This figure is simply an estimate of the amount individual plants will pay out of their own profits to their own amortization funds. Direct investment by republic and city governments--for schools, hospitals, roads, and so forth--amounted to 60 billion. Again this is a report of the amount agreed on by these governments. New investment by individual enterprises amounted to some 40 billion dinars, representing a combination of what firms reported they had on hand to invest and what it was assumed they needed. A large percentage of this was distributed among agricultural enterprises, slaughterhouses, refrigeration plants, shipbuilding, housing, and armaments.

The significance of this breakdown is that most of the gross investment and almost half of the net investment in 1954 were outside of direct control by the federal government. Here

the turnover tax comes into play as a measure of control. By raising or lowering the tax, the government can to some extent encourage or discourage investment for certain purposes. For example, producers of certain types of industrial timber goods once had to pay a turnover tax of 50 per cent. Generally speaking, however, application of the turnover tax is based on planned profits. Collection of the tax is not too efficient, because the Yugoslav federal government has no elaborate system for verification of plan fulfillment or production figures. For the most part, the federal government relies on the local People's Councils for these figures. This system leaves much to be desired as a means for compiling statistics.

The federal government control over wages is even less direct. Maximum wages are fixed in the plan for various types of industries. When a plant's wage payments reach the maximum, the People's Committee is directed to apply certain tax rates to the plant's profits. In extreme cases the tax may be 90 per cent of profits. However, the People's Committees have not proved to be 100 per cent efficient as an enforcement agency, with the result that, in some unusually profitable sectors of the economy, wages have soared above the maximum contemplated in the plan.

We have then, evidence of the possible malfunctioning of procedures established under the decentralization policy. Many workers receive wages well under the "minimums" set for the industry in which they are employed; some receive well over the "maximums."

As an illustration of the extremes possible, wages paid in June to the Mladi Jugoslovenski distillery in Split were 64 per cent above the maximum, while in the Stvarnost canning factory near Zagreb some workers on a minimum wage of 6,000 dinars a month actually received only 3,500.

Such situations, however, are the exceptions rather than the rule, and the serious problems of the decentralized control of industry relate to overinvestment and excessive profits and prices.

INVESTMENT PROCEDURES

All investments other than those from profits are made possible by credits from the National Bank. Since 1952, the system of bank credit to industry has been completely revised every year, and a new revamping for 1955 is in prospect. Generally speaking, the current system operates like this:

Where direct federal investment for particular purposes is specified in the plan, the Bank acts as the agent of the government. For example, the 1953 plan called for investment of 1.5 billion dinars for new cement plants in Macedonia. The officials of the Skoplje branch of the National Bank conferred with officials of the Macedonian government about where a plant

was to be built. The Bank then called for bids on construction of the plant. To the firm awarded the contract, the bank granted credits. These were paid back this year to the Bank, which then turned the funds over to the republic of Macedonia. This is the system generally followed in building up the more underdeveloped areas in Yugoslavia.

In regard to the general federal investment fund, the Bank, having received instructions from the federal secretariat of economics about the types of industries for which funds are available, simply accepts credit applications from individual firms. Ad hoc commissions of experts appointed by the Bank inquire into technical competency of the applicants and approve loans to those which meet minimum conditions. The approved firms then bid for the available credit. The interest rate depends on supply and demand. To illustrate:

In 1954, there were 4 billion dinars available in the general investment fund for housing construction. Ten firms, each seeking 50 million dinars, offered a rate of 5 per cent. Five firms, each seeking 250 million, offered 4 per cent. Fifteen firms, each seeking 150 million, offered 3 per cent. Twenty firms, each asking 5 million, offered 2 per cent. And ten firms, each asking 2 million, offered 1 per cent. Since only 4 billion dinars were available, and since the highest bidders were entitled to it, the firms offering less than 3 per cent received no credit, and the interest rate for all was fixed at 3 per cent.

The bank made the following table to arrive at its decision (the line separates the successful from the unsuccessful bidders):

<u>Number of firms</u>	<u>Total dinars asked</u>	<u>Per cent offered</u>
10	500,000,000	5
5	1,250,000,000	4
15	2,225,000,000	3
30	120,000,000	1-2

The period of repayment varies with various types of industry and is specified in the plan. Currently, for example, the electrical industry is allowed 30 years, the iron and steel industry 25 years, winegrowers 20 years, machinery plants 10 years.

The fact is that, although the general industrial pattern is outlined in the plan, there is at present no procedure to prevent certain individual enterprises from getting more credit than they need. A further aggravating factor is the system for granting short-term credits.

Here the same system of bidding prevails at each credit offering. Under the law, when loans are underwritten by the republic parliaments or the local People's Committees, the bank has no alternative to a grant of credit. The bank can fix the interest rate so that, as with general investment credits,

only firms offering certain rates get credits. At each of the seven credit offerings this year, the bank has raised the interest rate. What has happened, however, is that firms which lose out at one bidding simply offer a higher rate next time. The result is the anomalous situation of a rising interest rate and at the same time an expanding volume of credit.

ABUSES OF INVESTMENT PROCEDURES

Many enterprises are using excessive credits to speculate in the market and to expand uneconomic production. Since they can set their own prices, they are in many instances piling up amazingly high profits. Borba, the official organ of the Communist Party and Yugoslavia's leading newspaper, pointed out recently that wholesale prices for the first 8 months of 1954 had increased more than 8 per cent. It cited an enterprise that had carried out only 38 per cent of its plan and made a profit of 138 per cent. Another enterprise fulfilled its production plan by 113 per cent but made a profit of only 5 per cent.

Because Yugoslavia is building up an industrial system necessary for socialism, enormously high tariffs are imposed on the importation of almost all industrial goods. This gives certain firms what amounts to a monopoly. Svetožar Vukmanović-Tempo, the chief federal economic expert, has cited cases where Yugoslav producers, protected by these duties, have "actually blackmailed" other firms into buying at unreasonably high prices, accepting products of inferior quality, and placing orders in excess of real need.

In theory the local People's Committees have enough authority to correct many of these abuses by their taxing power. What happens is that the People's Committees are often dominated by representatives of the workers' councils and adopt a more or less laissez-faire attitude toward the industries. Contrariwise, it often happens that in their efforts to develop their new communities and build new plant equipment, the People's Councils go to the other extreme and tax enterprises so heavily that they are deprived of adequate profit.

DIFFICULTIES OF DISTRIBUTION

Mechanisms of distribution also sometimes falter under the autonomous economic authority vested in the People's Committees and individual enterprises. While there are republic-wide distributing firms--wholesalers--for finished raw materials and consumers' goods like textiles, in general each city is expected to procure necessities for its own retailing outlets. The responsibility for the widespread shortages of some goods, such as wheat and coal, lies at the federal level. But shortages of foodstuffs indicate an inadequacy of the distribution system at the local level. There are times when insufficient fish are

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in the markets of the Dalmatian coast, when melons and fruit are hard to find in markets near the growing areas, and when even meat is in short supply in the major cities.

It is my experience that Yugoslav officials blame the distribution system for such shortages. As a lover of seafood, I asked at every opportunity why there was so little of it in the markets. In Belgrade, the answer was either that one must go to the Dalmatian Coast to find fish in the markets, or that--because most of the coastal area is in Croatia--the fish are moved into Croatian centers such as Zagreb. On the coast, the answer was, "The fish all go to Belgrade." In Zagreb, questions about fish were answered simply with a snort, or put off with remarks about there being no fish in the sea. If so, Adriatic fish are remarkably aware of international borders, because fish are plentiful in the Italian markets. It is true that the fishing industry in Yugoslavia is in a crisis, due in part to lack of adequate boats and equipment, and due in part to quarrels between the private fishermen and the fishing collectives. However, the difficulty is not only one of supply but of distribution, and is another example of the problems resulting from extreme socialist decentralization.

While the Yugoslav leaders recognize that the system isn't working as it should and that there must be some changes, there is disagreement as to what kind of changes are called for. Mr. Vukmanović-Tempo does not always agree even with himself. Remarks he made recently to the Communists of Montenegro are typical of the contradictions that arise out of the effort to combine socialistic planning and collectivism with nonsocialistic policies of decentralization and a system of free competition.

"The entire system has entered a blind alley," Mr. Vukmanović-Tempo declared. "We must find a solution for this entire question. We must consistently carry out the principle of the working collectives managing the means of production and disposing of the surplus of labor completely independently. On the other hand, we must maintain the open market system but at the same time render it impossible for the working collectives to achieve profit by means of speculation, or by means of increasing prices."

In other words, Yugoslavia must continue to let individual enterprises dispose of profits as they wish, but must act to stop them from doing it in a harmful way.

Mr. Vukmanović did not, however, demand a more stringent tax system. He criticized local governments for overtaxing industry and declared that the big problem was the fact that unproductive industry had the effect of keeping wage levels down in productive industry. This, he implied, could be solved only by more severe competition. He maintained, however, that competition must be held to the domestic scene, because the development of socialism depends on industry and the development of industry depends on keeping out foreign goods.

Finally, Mr. Vukmanović declared that in his opinion

it is necessary to use "administrative intervention"--that is, direct government controls--to stop wage funds from going up at the expense of the whole community.

On the other hand, plans are under way for a decentralization of the entire banking structure that should lessen federal credit controls.

Despite these evidences of confusion, one cannot say that the Yugoslav economic system is not giving the country industrial production. Generally speaking, the production indices have been rising in the important areas of the economy ever since decentralization went into effect. Production of vital items such as electric power, metal products, trucks, and farm machinery is higher than ever before, and after the completion of 132 key projects two or more years hence, industrial productive capacity will be much increased.

As far as industry is concerned, the big problem is a lack of coordination. Currently there is an acute shortage of coal, although coal production is at an all-time peak. The shortage is the result of increased consumption by an expanding industry, by a growing railway system, and by Yugoslav householders. Home consumption of coal has increased as a result of government conservation measures which limit the supply of wood for fuel. Although the national electric-power position is good, Serbia is pathetically short of power. In contrast, there is a surplus of power in Bosnia, a semi-underdeveloped area where both industry and population are much less than in Serbia.

THE EFFECT OF DECENTRALIZATION ON AGRICULTURE

The sector of the economy which has been hardest hit by the new system is agriculture. Agriculture in Yugoslavia--a country where more than 70 per cent of the population is dependent on the land--has been left to shift for itself since 1952. It is perhaps the first and most important victim of decentralization.

Prewar Yugoslavia was a big exporter of grain. Cominform Yugoslavia broke even. Since 1950, wheat has been imported every year, and in increasing amounts. This trend has developed during a period in which the government has softened its attitude toward the peasants and in effect has at least temporarily abandoned the policy of collectivization.

Although the intention was to encourage production by peasants outside of the collectives, it did not in fact always work out that way.

First, compulsory deliveries of grain were eliminated. Then dissolution of collectives was permitted, with the result that only a few remain. Then a 10-hectare limit was slapped on private landholdings. This in itself was not too important, as the average landholding is from four to five hectares. But at

the same time special bank credits, machines, fertilizer, etc., were still available on more favorable terms to collectives than to private producers. During the period of compulsory deliveries of grain, many peasants had turned to other, more profitable produce. To encourage them to resume production of wheat, special credits were created last year, but American agricultural observers say they have not heard of a single peasant taking advantage of them. Agricultural production continued to decline. This year a special price of 23 to 24 dinars a kilo--4 to 5 dinars above the market price--was offered for wheat. Peasants were given an advance of 10 dinars a kilo on wheat promised, with a 20-dinar penalty for nondelivery. The year unfortunately brought a severe drought--the third since 1950--and many peasants were unable to deliver. The result was that they went seriously into debt, and peasant annoyance with the regime and with banks and with the state apparatus generally increased.

The effect of the compulsory delivery period--1945-50--was to decrease wheat production, and the droughts have been another serious factor. It is also true, as the Yugoslavs point out, that as the standard of living in the country increased, bread consumption increased above prewar levels. At the same time, the fact remains that in agricultural Yugoslavia there is a serious wheat shortage. Lines queueing before bread stores in Belgrade are a familiar sight, and on at least one occasion a near riot ensued when a truck drove up with loaves of bread.

The whole attitude of the Yugoslav government toward agricultural problems reflects the ideological confusion inherent in the effort to maintain a planned, socialist economy with a working, free, competitive market. Because Yugoslavia is socialist, industrialization is its chief goal, and workers have the favored position in both the economy and the state. Worker representation in the councils of producers--the parliamentary bodies of workers in the legislatures at every level of government--is about five times that of peasants--almost the reverse of the ratio in the population. This not only tends to give many peasants a feeling of nonparticipation in government, but it also means that the legislature pays scant attention to agricultural problems. There is no ministry of agriculture in either the national or in the republic governments. Agricultural advice, fertilizer distribution, and like services could best be handled by some central authority, but are left to local authorities. This means that often the farmer gets none of the help he needs in a country where agricultural techniques should be brought up to date. Constant official reminders to local governments that "agriculture is important, too"--a sizable understatement--seem to fall on deaf ears.

THE BALANCE-OF-PAYMENTS CRISIS

The problem of wheat shortage is bad enough as far as the Yugoslav people themselves are concerned, resulting as it has in less bread and higher prices. But it is also one of the central

facts in the very serious balance-of-payments crisis the country faces.

The balance on the agricultural deficit is \$130 million. Wheat imports since 1950 account for about 50 per cent of the current balance-of-payments deficit of some \$300,000,000. In the current crop year, about 1,300,000 tons of wheat will have to be imported at a cost of nearly \$100,000,000. It is difficult to see how, even with the most advantageous conditions, further imports of like size can be avoided next year. American agricultural observers in Yugoslavia believe wheat may have to be imported for at least ten years.

Even if Yugoslav agriculture should miraculously pull itself out of the present morass, the way out of the balance-of-payments crisis is not clear. Capital-goods imports now cost more than \$120,000,000 yearly. When the key projects are completed two or three years hence, new capital-goods imports will probably be reduced, but the expanded production from the new key plants will necessitate increased imports of raw materials. Raw-materials imports have currently declined to a point where a further decrease would mean unemployment. Generally speaking, Yugoslav industry operates on very short-term stocks, as a rule about three weeks ahead. Thus operation of the industrial system for even a short time depends on keeping current imports up. Since 1950 imports have never been less than \$150,000,000 a year. And when the key plants are all in operation, raw-materials imports are apt to increase.

There is no doubt that Yugoslav imports--aside from those needed for food, raw materials, and military purposes--could be reduced somewhat and that the total amount of foreign exchange available for imports could be spent more advantageously. The fact that there is almost no internal control of credit (and thus little control of new facilities), coupled with the fact that foreign trade itself is decentralized, seriously complicates the picture.

Generally speaking, twenty or more large export-import firms handle the bulk of the foreign trade. But any individual enterprise may obtain authorization to export and import, and many of them have done so. Any firm selling abroad can use any or all of its proceeds for imports in exchange. Nonexporting firms wishing to import must buy foreign exchange from the National Bank at a free rate, which is now about 900 dinars to \$1 (compared with the official rate of 300 to \$1).

Exporting firms which receive a balance of foreign exchange must sell half of it to the National Bank at the official rate. The other half may be exchanged at the free rate or it may be utilized in further foreign trading, in which case the firm is permitted to hold it in a foreign account.

Although the federal government does maintain a list of nonexportable goods and also limits the amounts of some other goods

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which may be exported, this has not prevented the export of some products to the point of creating a situation of short supply in Yugoslavia. Nevertheless, a current export drive to gain foreign exchange has not materially altered the balance-of-exchange picture.

In this picture, foreign aid--about three-quarters of which comes from the United States--is an important factor. In 1954, total imports into Yugoslavia amounted to \$395,300,000. Of this, \$136,000,000, including aid, came from the United States. The biggest items of import were wheat, corn, lard, raw cotton, coal, and machinery.

Total Yugoslav exports in 1953 amounted to \$185,980,000, of which exports to the United States accounted for only \$7,801,000. Chief exports to the United States were hops, tobacco, carpet wool, zinc, barites, mercury, copper, lead, and chrome.

The general foreign-trade picture for 1954 so far gives Yugoslavia a greater percentage of imports over exports than in 1953.

Despite the confusion resulting from the extreme decentralization, the internal economy of Yugoslavia can without doubt rock along and probably in time strike something of a balance. The more basic problem the Yugoslavs are up against is seen in their balance of payments--although of course here too the internal economic situation is vitally involved. Transfers to Yugoslavia of American surplus wheat at what would amount to dumping prices--something possibly both Yugoslavs and Americans are looking forward to--would alleviate the problem. But it is difficult to see how it can do more than delay an ultimate decision. If and when the decision is to be made depends in no little degree on whether the Yugoslavs can strike some kind of harmony between socialism and their insistence on a decentralized, free internal market. And before they can do that they must certainly clarify their ideology.

Fred Warner Neal