Market Socialism in Yugoslavia and its Relevance to Cuba

By John Curl

The rise and fall of market socialism and self-management in the former Yugoslavia are not very widely known. That may be partly because most of the original literature is in Serbo-Croatian, although much has been translated into English and other languages. Another reason may be that many people might think of Yugoslavia as irrelevant, a backwater that they can barely locate on a map. Finally, the civil wars of the 1990s and the dismantling of the country, replete with ethnic cleansings, may have seemed to prove the dismal failure of whatever system that had been there before the collapse, so why even bother studying it?

Yet something truly extraordinary happened in Yugoslavia for several decades. At its peak, when most enterprises were a form of worker cooperative and functioning as autonomous businesses in a market economy, Yugoslav socialists were faced with a crucial dilemma: In a “free” market context, how to maintain socialist planning to further social justice and prevent market socialism from becoming group capitalism.

How and why the system rose and fell, is all the more relevant today, since worker cooperatives are now becoming a global movement, promoted by the United Nations and other international bodies to fight poverty and underdevelopment, and since Cuba has embarked on a similar course. Those in Cuba positioned to help shape this crucial moment of economic and social reform, might want to closely examine the economic history of the only other country in the history of the world which actually tried to implement an inclusive form of market socialism on a national scale.

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INTRODUCTION

What constitutes socialism and how to achieve it have been debated since the beginning of the socialist movement.

The socialist movement began in the 19th century, in reaction to the widespread human abuses of the early industrial revolution, when industrial capitalism was taking power and quickly becoming the organizing force of all the industrializing economies. While the industrial revolution held out the promise of prosperity for all through technological advances, industrialization under capitalism and its wage system brought a new kind of bondage for working people, and channeled most of the wealth being created into the coffers of a small privileged elite.

The socialist movement, in opposition, offered the promise of social justice and prosperity through a different way of organizing the economy:

- Rational economic planning to promote social justice;
- The workers taking over the means of production, and running the economy themselves.

But during the early practice of Soviet socialism these two ideas separated.
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The Soviets centralized economic planning by the state. After the early revolutionary period, workers' power became void of much real content in the workplace, and the idea of workers actually running their enterprises was postponed to a distant future. Professional planners, working for the central government bureaucracy, planned the Soviet economy, with deep participation of the Communist Party.

In contrast, Yugoslavia was the first country in the world that tried, between 1950 and the early 1980s, to implement the second idea without abandoning the first idea.

While Cuba and Yugoslavia represent very different situations, Yugoslavia's experiments can stand as both object lessons and cautionary tales.

OUTLINE HISTORY OF MARKET SOCIALISM IN YUGOSLAVIA

Because many are unfamiliar with the history, I'll present a brief outline, bearing in mind that any historical outline is a distortion of a complex reality. Yugoslavian market socialism and self-management never stood still, never became a stable, long-term system, but was always a dynamic experiment in a volatile historical context.[1]

1950-'65 – Formative years.
1965-'74 – Success and problems.
1974-'80 – Increased decentralization.
1980-'88 – Dismantling by the International Monetary Fund and World Bank.
1988-2001 – Disintegration, civil war (1991), and dissolution of the nation.

BEGINNINGS

Yugoslavia had no long tradition of national unity, but was cobbled together after World War I in 1918 as a kingdom under the Serbian royal family, from territories that had for centuries been part of the Ottoman Empire and Austria-Hungary.

During World War II Yugoslavia, along with most of Eastern Europe, was occupied by the Axis. But unlike what happened in the rest of Eastern Europe, the Yugoslav Partisan resistance in 1945 expelled the Axis through their own efforts, with only minimal help from the Soviet Red Army. So Fascist occupation was never replaced by Soviet occupation and, after the war, the Yugoslavs felt beholden to no one for their independence. Among the first things they did was abolish the monarchy and declare a republic.

The new Socialist Federal Republic of Yugoslavia was a federated state of the republics of Slovenia, Croatia, Bosnia-Herzegovina, Montenegro, Macedonia, and Serbia, including Serbia's two autonomous provinces, Kosovo and Vojvodina. Each represented different ethnic groups, and each retained its own nationalism.

The new central government, formed by the Communist Party of Yugoslavia and led by Marshal Josip Broz Tito, rapidly instituted Soviet-style socialism, with centralized planning, nationalization/socialization of all capital, and collectivization of agriculture.

But in 1945 Yugoslavia had few industries and no widespread working class. It was still an almost entirely agricultural peasant country. Most people were farmers in longstanding communities, subsistence farmers who commonly also planted some cash crops if they had land to do that. To become a successful modern nation, Tito argued, Yugoslavia needed to industrialize. The government had to organize almost all of the new industries itself. And they had to convince farmers to become industrial workers. Accustomed to being their own bosses (despite the hard work of farming), many people resisted becoming employees in factories, and the regimentation that usually involved.

Having just liberated themselves from fascist domination, Yugoslavia now rebelled against Soviet domination. Just three years after the country's founding, Tito broke openly with Stalin. Between 1948 and 1950 the USSR stopped all trade and aid. With the Soviet bloc no longer a trading partner, the Yugoslavs took their only option: start trading with the West.

While the USSR stressed a barter system with its trading partners in the socialist bloc, trading with the West inevitably meant that Yugoslavia now needed to make much greater use of the market.

1950-'65 – Formative years.

Yugoslavia began instituting a series of economic and political reforms based on empowering people in their workplaces and communities. This was a move away from the top-down Soviet-style command economy. Taking the Paris Commune of 1871 as a role model, the Yugoslavs tried to invent a form of socialism that combined socialist planning with workplace democracy: they called it workers' self-management. On the enterprise level, it operated through workers' councils. Self-management through workers' councils became a key force both in enterprises and in local community governance.

This paper will focus on self-management in the enterprises, and not in community governance, although that was also an integral part of the larger picture.

Self-management developed into market socialism or, as key theorist Branko Horvat described it, "self-governing socialism." Yugoslavian self-management and market socialism were shaped by the ideas of Tito, Edvard Kardelj, Branko Horvat, and several others.[2]

In the first phase, beginning in 1950, the government introduced workers' self-management by handing over the internal management of each non-agricultural enterprise to the workers' collective. When first implemented, workers' powers started off fairly modestly, but soon increased. All workers elected their own managers and maintained a significant level of control over their workplace, while the central government still owned all the enterprises. Workers could directly implement many ideas and initiatives at their place of work. The workers' collective controlled how a significant portion of the profit ("social surplus") of their enterprise was to be spent, how much would go for salaries, and how to relegate the rest. Over the following years, the workers' collective of each enterprise acquired increased decision-making powers, including to right to decide on what products they were producing, to purchase raw materials, determine prices of their products, and market them. They set their own wage scale. They gained the power to buy, lease, and sell fixed assets. Market mechanisms determined many of their decisions, but these were tempered by the government maintaining significant control over market operations and to some extent prices.

Central government planners continued to regulate and integrate the economy. During this period, "free" market mechanisms played a comparatively minor role, and were not the dominating factor. The central government received the bulk of the "social surplus", which it processed by socialist planning and distributed through a Central Investment Fund to where the funds were deemed most needed in society. The workers' councils communicated their ideas and initiatives to the central government planners, who in turn were supposed to assimilate those ideas into the larger plans. Thus in concept they tried to plan the economy from the bottom up and from the top down, through balancing all these initiatives and ideas.

The self-managed enterprises were "schools of socialism" in their internal democratic work relationships, and in that the workers operated and planned each enterprise. Also, and perhaps most importantly, the self-managed enterprises were "schools of socialism" in that a portion of the workers' share of the "social surplus" was always earmarked to benefit the larger community in any way the workers chose. An enterprise might choose to contribute to local schools, hospitals, parks, housing, youth, senior centers, or to any other project that benefited the larger community. The debates and decisions of the workers' collective of each workplace about how to relegate parts of their "social surplus" was where the rubber hit the road in the relationship of each enterprise with their community. It was through this process that the enterprise supported its community, and the community in return understood that success of the enterprise and the community were interconnected. Thus each enterprise was encouraged to think not just in terms of self-interest, which could make them into schools of group capitalism, but to think in terms of mutual benefits to community and society.

For the first three years, between 1950 and '53, only the government organized new enterprises, all of which immediately came under self-management. Then they opened the economy so that "citizens groups" could start new enterprises by forming worker co-ops on their own initiative. If a new cooperative enterprise hired outside labor, those workers were subject to the rules of workers' self-management.[3]

The government also opened the economy at that time to individual self-employment. Under the new laws, individual self-employed people could purchase or lease assets from the state to do business, but they could not employ labor. Later that was modified so that private businesses could hire up to five workers, who were also subject to parts of self-management.

In the same period, between 1951 and '60, while non-agricultural industries were being organized as self-managed worker cooperatives, agriculture was moving in a different direction. The early collectivization of agriculture, with the government purchasing and distributing all produce, had been very problematic. Now, most agricultural collectives were disbanded, and replaced by small independent farms. The distribution of produce was now left to market forces, and to do that small farmers began organizing marketing cooperatives.[4]

Overall this was a very successful period by standard economic indicators, and between 1956 and '60, the economy grew at 13 percent.[5] This system, with a workable balance between worker-run enterprises and state planners, continued with significant success into the early 1960s.

1965-'74 – Success and problems.

Yet by the early 1960's unmistakable problems also emerged, inflamed by regional and ethnic nationalism.

Despite central planning, regional unequal development continued and in some cases increased. Regional nationalism was exacerbated by competition for resources. Regional bureaucrats tended to grow their own personal power through distribution of federal monies and resources. That often resulted in bad planning and wasteful production. Many enterprises ran at losses, made up by federal subsidies. Each republic focused on its own economic development and on developing its own industries, with little or no coordination with the other republics. The situation became economically unsustainable, and by 1964 the country was in an economic crisis.

In 1965, the Tito administration instituted a series of reforms, aimed at resolving the problems by increasing the powers of regional planners, decreasing the powers of central planners, and increasing the reliance on market forces.

These reforms were based on the notion that further empowerment of the self-management bodies might give them greater workability. Planning decisions were supposed to be reached through a long process which worked out the conflicts between the plans of each worker's council, municipal commune, and republic. But many workers' councils complained that their initiatives were being hindered by central planners. The reforms also served to distance the central government from the focus of local conflicts of interest.

The 1965 reforms removed many regulations tempering market forces. Failing enterprises were no longer kept alive by federal government subsidies. Only profitable enterprises could qualify for monies for expansion. The central government hoped that this would result in a sustainable economy based on enterprises that could compete in the market. There would be no further central plan directives made directly to enterprises. Self-managed enterprises could now openly compete with each other, set their own prices without qualification, and totally control their "social surplus". The Central Investment Fund was dismantled, removing a whole level of planning and bureaucracy, so that federal government funds were now distributed directly to the republics and self-managed enterprises.

Over the following decade, the federal government gradually abandoned most central economic planning, and increasingly left planning to the regional governments.

Even the League of Communists (Communist Party of Yugoslavia), which was supposed to help hold national unity together through setting overall priorities and targets, began to decentralize in favor of regional branches. By then, about 60 percent of Party membership were professionals, officials, and technical workers, while manual workers and peasants made up about 40 percent.[6]

But the central government did not abandon indirect economic planning. As the enterprises and republics became more autonomous, federal government planning became indirect, using many of the same mechanisms that Western governments use to shape their economies, including taxation, subsidies, and regulations.[7] They continued to subsidize prices of basic goods nationwide. They also continued to direct banks to focus investment into the poorer regions, which drew protests from the bureaucracies in the richer regions.

Market socialism was remarkably successful by some yardsticks. Yugoslavia had been a poor agricultural country with life expectancy of 50 and illiteracy at 75 percent, but by the late 1960s was an industrialized, urban, and literate county with one of the fastest growth rates in the world and a life expectancy of 70. Six million people left their villages and found work in the cities and towns.[8]

But market forces also led to unemployment, increased inflation, growing foreign debt, social and class inequality, and exacerbated the divide between the regional republics. Meanwhile, the dismantling of the agricultural collectives resulted in significantly increased rural inequality.

Being integrated into the Western international market provided access to capital for development. Enterprises and republics were struggling economically, and badly needed credit. Now enterprises and republics no longer had to go through the federal government, but could negotiate directly with international banks and financial organizations. And Western banks offered them easy credit.

This easy Western credit facilitated widespread financial irresponsibility, based on exaggerated, unrealistic expectations.

<u>1974-’80: Increased decentralization.</u>

The world economic recession of 1973-’75 hit Yugoslavia hard.

The federal government’s response was further decentralization and increased self-management.

In 1974 a new constitution further increased the powers of self-government of the republics, including their individual ability to raise taxes. A 1976 Law on Associated Labor greatly expanded the power of workers’ self-management within both the enterprises themselves and over wider local social policies through community organizations. The rationale was that the workers themselves, who were closer to the situation than central planners and technocrats, might best know how to relate to the market, and therefore should be entrusted with making key decisions. Wider social control over the market would be achieved through a long process of discussion, starting from local development plans, and leaving most decisions to the enterprises, municipalities, and republics.

The plan did not work. The worker collective of each enterprise increasingly based decisions on its own survival, and less on the greater social good. Uncontrolled market forces promoted intense competition; most decisions were increasingly being based on maximization of profit; the republics were becoming virtually independent and economically autonomous. Meanwhile the federal government was relinquishing much of what was left of its ability to carry out socialist planning.

The world recession lured Yugoslav enterprises and republics into accepting lavish credit from Western financial agencies. Enterprises and republics compiled a crushing debt to Western banks and financial institutions, with little concern. Reckless borrowing permitted kicking the can down the road. Due to that credit, an illusionary financial bubble appeared. Between 1974-‘78, industry appeared to grow 33 percent, employment grew 4.5 percent per year, and purchasing power increased 25 percent.[9] It sounded too good to be true, and it was.

When the easy credit bubble burst, a spiraling race to the bottom ensued.

Tito’s death in 1980 ended the era.

1980-‘88 – Dismantling by the International Monetary Fund and World Bank.
1988-2001 – Disintegration, civil war (1991), and dissolution of the nation.

After Tito's death in 1980 a “collective presidency” replaced him, consisting of six representatives of the republics.

Decentralization continued. The central bank of Yugoslavia was broken into a number of central banks and republic banks. The rising economic power of the republics continued to strengthen the material bases of regional nationalism.

The financial crisis came to a head. By 1980, Yugoslavia had accumulated over 20 billion dollars in foreign debt. Now the international bankers were arriving to collect what was theirs.

Meanwhile, the U.S. Reagan administration targeted the Yugoslav economy, as part of its larger initiative to destabilize and overthrow Eastern European governments and absorb Eastern Europe into the Western market economy.[10]

The International Monetary Fund and World Bank came to Yugoslavia to force repayment of the gigantic debt through restructuring the economy. They quickly took control of the economic direction through neoliberal austerity policies, dismantling self-management, empowering enterprise managers to act without consulting workers’ collectives, extremely restricting wages, privatizing social property, eliminating price controls, and wiping out almost all socialist aspects from the Yugoslavian economy.[11]

This coincided with the rise of Slobodan Milosevic, backed by the western financial institutions and a virulent anti-Titoist Serbian nationalism.

One of the many CIA agents operating in Yugoslavia later became contrite and admitted that, “We were given money, a few million dollars, to fund various NGOs, opposition parties and various politicians who have inflamed hatred... The aim of the propaganda was to divide the republics so they would break away from the motherland Yugoslavia.”[12]

The story ends in civil war.

YUGOSLAVIA AND CUBA

The extreme regional and ethnic differences that Yugoslavia inherited were central to the failure of market socialism in Yugoslavia and the dissolution of that country. Cuba does not have that problem, thus similar regional forces are not a factor in Cuba today.

Yugoslavia tried to reconcile a socialist economy with internal and international markets, without opening their flood gates to domination by the forces of capitalism. It was unsuccessful. Today Cuba needs to find a solution to that same central problem.

Yugoslavian self-management treated socialism as a system to be achieved only by the working people themselves, not by government directives. In concept, their market socialism was to be planned and implemented both from the bottom up and from the top down, by a combination of workers' councils and government planners, by merging government planning with workplace democracy.

Cuba's socialist economy has until recently been shaped primarily by government planning in the context of the U.S. embargo. Today's reforms, opening Cuba's economy to worker cooperatives and individual enterprises, can bring into play the creative energies and initiatives of large numbers of people who until now have not been empowered. Today Cuba has the opportunity to structure its economy so that cooperative enterprises can contribute to greater social/economic justice not just for their members, but for the larger community and society, through social and solidarity planning from below.

CONCLUSIONS

How can Cuban worker cooperatives, operating in a market economy, provide equitable employment for their members in a democratic environment, and at the same time contribute to greater social justice for their communities and society?

The answer lies in part with the regulatory system that Cuba sets up for worker co-ops to operate within.

Among the successful structures and regulations of Yugoslavian self-management and market socialism that are relevant to Cuba are:

- The "social surplus". Government regulation can determine that a share of annual profits of each enterprise is recycled back to the community. The workers' collective of each enterprise decides how that "social surplus" is to be channeled. Thus workers are motivated by specific community benefits of their choosing, as well as by personal economic self-interest. This is very important to maintain worker co-ops as socialist enterprises.

- Reserve funds. Government regulation can stipulate that a share of annual profits of each enterprise needs to be held in reserve or invested back into the enterprise. Thus the workers are looking toward long-term planning which stabilizes their enterprises and communities.

- Rents. The rental terms for their use of socially-owned property, such as buildings, means of production, etc., can be negotiated to benefit both the cooperatives and the larger society. Thus the success of each worker co-op is connected to maintaining and growing the social property they use.

• Government preferences. Government can support cooperatives over private enterprises by awarding contracts to cooperatives on mutually favorable terms for needed products and services.

• Co-op education. Government can promote co-op success through making cooperative education available, and providing backup structures for struggling groups. While co-op workers may be highly skilled in production, they often have little experience or knowledge about how to run a successful enterprise, and many do not have adequate experience in co-op democratic processes.

• Economic strategy. Government can provide incentives promoting cooperative development in underdeveloped areas and niches of the economy, while minimizing competition among co-ops. New cooperative enterprises need to find open niches to operate in, expanding the economy and providing new employment. Policy should be to expand the economy through cooperatives and to avoid new enterprises in competition with successful existing ones.

• Community enterprises. Through loans and support systems, local and regional governments can create joint cooperative ventures and social enterprises to promote sustainable community development fitting local conditions.

• Loan limitations. Government should carefully limit the ability of all enterprises to contract loans or investments from international or foreign financial institutions; any such debts should not be guaranteed by the larger community.

For over fifty years, the Cuban revolution has served as an inspiration to those unwilling to submit to the power of international capital. Now, in an age where the world regime offers no livable future, people everywhere are reinventing themselves, and Cuba too is entering an era of reinvention.

By learning from the experiences of Yugoslavian self-management and self-governing socialism, Cuba's new social experiment can hopefully avoid many pitfalls awaiting. Yugoslavia's successes can serve as role models, and its failures can serve as perilous roads not taken.

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[1] This outline generally follows Michael Karadjis, "Yugoslav Market Socialism: From heyday to collapse."
https://www.google.com/search?q=Yugoslav+Market+Socialism%3A+From+heyday+to+collapse+By+Michael+Karadjis&oq=Yugoslav+Market+Socialism%3A+From+heyday+to+collapse+By+Michael+Karadjis&aqs=chrome..69i57.2580j0j7&sourceid=chrome&es_sm=119&ie=UTF-8

[2] See: Branko Horvat, *The Political Economy of Socialism* (Armonk, N.Y.: M.E. Sharpe, 1982); Branko Horvat, Mihailo Markovic, and Rudi Supek, *Self-Governing Socialism*, 2 Vols (White Plains, N.Y.: International Arts and Sciences Press, 1975).

[3] Karadjis, *op. cit.*

[4] Charles E. Lindblom, *Politics and Markets: the world's political-economic systems* (New York: Basic Books, 1977) 341.

[5] Karadjis, *op. cit.*

[6] Branka Magas, *The Destruction of Yugoslavia*. (London: Verso, 1993), 82.

[7] Lindblom, *op. cit.*, 340.

[8] Karadjis, *op. cit.*

[9] Karadjis quoting Catherine Verla, "Mounting Economic Difficulties in Yugoslavia," Intercontinental Press, March 12, 1979.

[10] "US Policy towards Yugoslavia," a 1984 "Secret Sensitive" National Security Decision Directive (NSDD 133, 1984), which amplified a 1982 directive on Eastern Europe which advocated "expanded efforts to promote a 'quiet revolution' to overthrow Communist governments and parties." Wikipedia, "Economy of SFR Yugoslavia."

[11] Branka Magis, *op. cit.*, 96-97.

[12] Robert Baer, "Confession of a CIA Agent: They Gave Us Millions to Dismember Yugoslavia," interviewed by WebTribune, Nov. 26, 2015. In GlobalResearch: http://www.globalresearch.ca/confession-of-a-cia-agent-they-gave-us-millions-to-dismember-yugoslavia/5492008