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Yugoslav Economic Reorganization -
Edward Ames

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YUGOSLAV ECONOMIC REORGANIZATION

Edward Ames

During the past year or more, the Yugoslav government and press have talked a great deal about economic reforms, which were to "decentralize" the economy by decreasing the role of the bureaucracy in controlling economic activity and correspondingly increasing the role of individual enterprises and the workers themselves. The reforms, some of which have been made into law and some of which are still in the draft stage, are of interest for a variety of theoretical and practical reasons. Since Yugoslavia has been the recipient of U. S. aid, any reform which might have the effect of improving Yugoslav economic performance would be welcomed. Second, the reorganization will be a test of whether a communist state can operate on the basis of a price system, as writers such as Lange have claimed. Finally, to the extent that the reforms actually reduce the power of the central bureaucratic apparatus, they may prove suggestive to students worrying about the major practical problem of trying to devise reforms which could provide a workable, yet non-aggressive regime in other communist countries?1/

In the following discussion, only the "economic" features of the reorganization will be discussed. In particular, two aspects of the overall program will be mentioned only in passing. The first of these is the devolution of administrative responsibility from ministries of the central government to ministries of the republics (Serbia, Croatia, Montenegro, etc.)2/ The second is the creation, by a law of July 1950 3/ of a new managerial system at the factory level. Instead of a purely appointive system of plant officials, there is now in the Yugoslav factory a "workers' council", elected by the workers, which in turn elects a "management council" to carry on the daily business of the plant. The plant director is still appointed by the ministry to which the plant belongs, but, if the Yugoslavs are to be believed, much of plant policy is decided by the workers themselves.

These issues will not be discussed here because they raise the political questions of the relation of the Communist Party to the government, and to the people at large. The extent to which local plant officials can be elected or can operate, independently of the Party, is very uncertain. In a political sense then it is not possible to

1/ See, for example, George Kennan, "America and the Russian Future", in Foreign Affairs, April, 1951.

2/ Announced at the meeting of the Presidium of the National Assembly on April 6, 1951. Sluzbeny List, 18/51, No. 185, 186.

3/ Sluzbeny List, 46/50, No. 46, July 22, 1950, also 6/51, No. 72, January 27, 1951.

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state whether the reforms are more than an administrative reorganization.^{1/} It is possible, however, to discuss the reorganization of the Yugoslav economy without reference to whether, in a political sense, policy formation has been decentralized, or whether the Government has deliberately relaxed its hold over the actions and thoughts of the people.

Economic features of Yugoslav reorganization

The principal economic features of Yugoslav reorganization are listed by a Yugoslav source^{2/} as follows:

- (1) The amount and direction of investment will no longer be determined exclusively by the State budget, but to a greater extent also by the individual producing units.
- (2) The workers will be given a direct incentive to improve, not merely their individual productivity, but also the general efficiency and profitability of the enterprise for which they work.
- (3) Prices will no longer be controlled by the state administrative apparatus, but will be formed on the basis of the laws of supply and demand as they affect the individual producing unit.
- (4) The budgets of various governmental organs, at the local and republican level, will no longer be part of a unified budgetary system controlled from the top, but will be prepared in some degree independently.
- (5) Agricultural taxation will be based upon potential rather than actual production, thereby creating an incentive toward efficient management.
- (6) The banking system will no longer extend credit to enterprises on the basis of a-priori allocations but according to the credit worthiness of the borrower; the enterprise will therefore

^{1/} Thus, for instance, Marshall Tito, in his speech of September 25, 1951 at Zagreb, declared: "When we deal with somebody who is an opponent of the Socialist system, we try patiently to prove to him that he is not on the right path. If, however, such a person stubbornly maintains his opinion and goes on destroying what we have built, we apply methods which are more humane than those applied in the USSR, because we are opposed to the medieval methods of murder . . ." The type of persuasion, the "methods" which are actually applied, the definition of what "an opponent of the socialist system" is, and what constitutes "destroying what we have built" are all interesting political questions which have not yet been answered.

^{2/} A. Tasic, "The Essence and Principles of the Reorganization of the Financial System", published as a leading article in No. 5-6, 1951 of *Finansijske*, organ of the Ministry of Finances.

have to operate efficiently in order to obtain the funds necessary for its operations.

In any communist economy the financial structure of the State (operating through the Ministry of Finances and the State Budget) is separated from the finances of the producing enterprises; the separation is needed to control output and efficiency of producers. In turn, the financial problems of these two elements in the economy are distinguished from the problems of the individual citizen. They change primarily the financial relation between the State (i. e., the budgetary authorities) and the producing enterprises, and the structure of the direct controls exercised by the planning and administrative authorities.

Boris Kidric, Chairman of the Yugoslav Economic Council and hence director of the planning process, has summed up the effect of the reforms in a complicated but interesting metaphor:

The earlier basic plans formed, so to speak, the surface of a sphere of production and distribution which consisted of a multiplicity of extremely compressed plans. The new basis of planning envisages two spheres: an inner, minimum sphere which, in the event of mishaps, will ensure the maintenance of economic equilibrium and the well-proportioned flow of essential commodities; and an external, less essential sphere which the economic enterprises and associations will form by their own efforts to utilize their productive and commercial opportunities. This sphere is not in danger of producing a disequilibrium: it is subject to correction by the action of supply and demand; moreover the socialist State has, in its financial reserve funds, powerful means to create and utilize its material reserves in a planned fashion and to use them for raising the standard of living, defending the country and satisfying various social needs.^{1/}

This passage will be less than perfectly intelligible to those unfamiliar with Marxist terminology and communist planning procedure. The older type of planning, as practiced in Yugoslavia (and still practiced in the Soviet bloc countries), calls not merely for the determination of "proportions" (basic structural relations) in the economy, but also for an extreme amount of control over the individual plant, including plans for volume and prices of input and output, sales and inventories. The data for each plant are then combined into a series of "materials balances", representing allocations of purchases and sales for each enterprise, industry, and region. These balances are then coordinated with financial plans, which are also built up from data relating to individual enterprises. In terms of this interlocking of plans, Kidric's metaphor of the sphere containing "a multiplicity of extremely compressed plans" seems apt.

^{1/} Borba, August 27, 1951. The word "equilibrium" is a free translation of the word meaning "proportions", which in communist economics is the equivalent of "structural relation". The free translation conveys the spirit of Kidric's remarks.

The following analysis deals first with the "inner sphere", in the planning of which the State participates directly, and then with the "outer sphere", which represents the activities of the individual enterprises. This discussion will raise a number of questions concerning price formation, the role of credit in the economy, and foreign trade and exchange control which will be considered after the basic institutional relations have been clarified.

The Social Plan

The new Yugoslav planning system, then, consists of two parts: the "inner sphere", consisting of the "Social Plan", and the "outer sphere", consisting of "Independent Plans". In the terms of the Draft Law Concerning the Planned Administration of the Economy^{1/}

The Social Plan, by establishing the basic proportions in production and distribution, determines the direction of development of material productive forces, and effects the basic division of the national income into a fund of workers' consumption, capital construction, and other general demands of society. (Article 2)

Within the basic proportions of the Social Plans, economic organizations, associations and other producers plan and act independently on the basis of their rights and obligations as approved in legislation and other regulations. The methods and content of independent planning by economic organizations and associations is determined by their own regulations and the general instructions of the government of the FPRY (Federated People's Republic of Yugoslavia) and the governments of the Union Republics. (Article 6)

Kidric contrasts the old and the new systems at the enterprise level as follows:

The characteristic [of the old planning system -- E.A.]⁷ was that almost everything was planned from above, and the enterprise itself had almost nothing to plan itself. It participated, to be sure, in so-called operational planning, but the operational plans were directly dependent upon so-called basic plans which were dictated from above by the state apparatus, that is unilaterally by officialdom ... The earlier so-called basic plans entered deeply into the details of production and distribution and thereby restrained the initiative of the workers' collectives, and indeed prevented real management by the workers' councils and management councils [elected plant management groups established under the law of July 1950 -- E.A.]⁷. In contrast, the Social Plans contemplated under the new Draft Laws deal only with the basic proportions of production and

^{1/} Published in Borba, August 25, 1951.

distribution, that is the basic proportions which relate to the development of material productive forces and the distribution of the national income.^{1/}

In order to evaluate the practical effect of the new system in creating opportunity and incentive at the plant level, it is necessary to understand the meaning and scope of the concept "basic proportions". If the process of defining such "basic proportions" is so detailed as virtually to eliminate planning at the enterprise level, then the system will not, in fact, have changed; on the other hand if "basic proportions" are few and completely generalized, then the Yugoslav economy will be hardly more bound by the "Social Plan" than the American economy by the recommendations of the Council of Economic Advisers. The definition of "basic proportions" sets forth the scope and limitations of the Yugoslav central planning mechanism. Article 11 of the Draft Law lists them as follows:

"a) The obligatory minimum for the utilization of productive capacity, by individual branches of the economy and by republics."^{2/}

In other words, given a particular quantity of fixed assets, an industry is obliged to produce a minimum amount of output. The type of output is not to be specified; and even total output is fixed at the industry, rather than the plant level. Thus a particular ministry can presumably permit some plants to operate more intensively than others, providing only that total output is at least equal to the planned level.

"b) Basic investment in construction, in terms of value and capacity to be completed, by economic branches and by republics."

Basic investment is investment in which the government rather than the enterprise has a direct interest, and it is financed largely from the budget. In addition to "basic investment", there is also to

^{1/} Borba, August 26, 1951.

^{2/} An "economic branch" is roughly an "industry": within agriculture, crop-raising, livestock farming, etc., are branches; in transportation, rail; internal waterways, maritime and air transport are "branches", etc. Republics are emphasized because many industries are under the jurisdiction of the various republics in the Yugoslav federation (Serbia; Bosnia-Hercegovina, etc.) rather than under the central Government, and because of the importance given to the problem of raising the cultural and economic level of the areas formerly under Turkish domination to the level of the areas formerly under Austrian domination.

be investment carried on by, and at the initiative of, the individual enterprises. The value of investment activity is distinguished from investment completions because of a tendency, particularly marked in postwar Yugoslavia but present in all communist economies including the Soviet Union, for construction projects to be started and not completed. By making both a "construction" and "completions" plan, the Yugoslav government seeks to assure the completion of the most important projects.^{1/}

"c) The total wage fund by economic branches and republics, required for the utilization of the capacity of economic organizations in production and transportation and the determination of the portion of net profits which shall be allocated to the fund of variable wages of the workers.

"d) The average rate of accumulation and social funds in relation to the consumption fund of workers in industry, transportation, and trade, by economic branches and republics.

"e) The average rate of surplus product paid into the budget in the form of contributions in relation to wages by economic jurisdictions (activities)."

These three "proportions" relate to the volume and financing of the development program, and the level of consumption consistent with such a program. The following economic and financial structure is contemplated:

(1) Given a particular level of plant capacity in an industry and a particular level of required output, a "wage bill" is computed sufficient to permit output at the desired level.^{2/} This wage bill is the "fixed wage fund". It is supplemented by a "variable wage fund", or profit-sharing device, whereby the workers receive a stated proportion of the profits of the enterprise for which they work.

(2) Each enterprise pays a stated proportion of its fixed wage bill to the state budget as a "contribution", which is a cost element in the plant's books. In addition, a percentage of the variable wage bill is taxed. The "contribution" on fixed wages is uniform within an industry; the tax on variable wages is uniform throughout the country.^{3/}

^{1/} This problem was mentioned as one of the most important problems of the 1951 financial year by the Minister of Finances, Radosavljevic, in his report on the 1951 budget. See *Finansijske*, No. 1-2, 1951, p. 14.

^{2/} Minimum wage rates for various "skills and educations" of the labor are apparently to be set by the state (see Articles 15, 18, 20 and 23 of August 25, 1951). Amount and type of labor hired by an enterprise are not further controlled, and the enterprise may apparently raise wages above minimum levels.

^{3/} "On Social Contributions and Taxes" *Borba*, August 25, 1951.

(3) The State, in preparing its Social Plan, must coordinate, by branches of the economy, a) the amount of funds available for "accumulation and social funds", i.e., capital formation plus other government expenditures and social services; b) the amount available for "basic investment in construction", i.e. budgetary funds available for construction, plus the funds of individual enterprises available for capital construction, i.e., the profits of the enterprises minus, variable wage payments minus tax on variable wage payments; c) consumers' purchasing power (fixed plus variable wage funds) as compared to available consumers' goods (total output minus accumulation and social funds).

(4) The omission of agriculture from the branches of the economy mentioned above in Section "d" above as supplying funds for accumulation purposes is significant. In general, the government's objective seems to be to keep the peasant standard of living as close to the subsistence level as it can without interfering in peasant ability and willingness to feed the cities. The Government can achieve this end by minimizing profits in agriculture itself, in favor of profits at the level of food-processing or retail trade, using its monopoly power over bulk procurements and compulsory deliveries. For this reason, "accumulation" in agriculture is kept to a minimum even in cases where the government may be interested in agricultural development, and thus agriculture must be omitted from the branches of the economy, listed under "d". The list of "basic proportions" include also:

"f) the reserve fund of the Social Plan of FPRY, which is at the disposition of the Government of the FPRY.

"g) resources which are distributed for social use through the union budget [as distinct from the budgets of the republics and local governments -- E.A.], subsidies to individual republics, and the wage fund of workers paid out of the budget.

"h) the excess of income over expenditures which has been realized during the fiscal year, and which the People's Councils [local government] and republics can spend independently, in relation to the portion which they must carry forward as income for the following fiscal year.

"i) the distribution of social contribution and income tax in the union budget and the budgets of the republics."

These four provisions relate to the general financial stability of the economy, since "f)" refers to inventory accumulation by the government (as distinct from the enterprises), "g)" to the volume of social services, "h)" to the control over the budget surplus as a means of offsetting credit expansion considered necessary by the central bank, and "i)" to the general social impact of tax policy.

Thus the Social Plan, which fixes the "basic proportions" of the Yugoslav economy, is a fairly detailed document. It does not contain

much specifically affecting individual plants; it does attempt to control not merely the general level of economic activity, the general level of consumption and investment, but also the branches of the economy into which output and investment are channelled. Although a "branch" is more inclusive than an "enterprise", it is still a relatively narrow entity. Moreover, under Yugoslav conditions, where industry is still in a fairly primitive state, many industries consist of only one plant and only a very broad interpretation of "branch" would keep the makers of the Social Plan from controlling individual enterprises.

The independent plans

The Social Plan, aimed at "preventing the innate anarchy of capitalism in social production and distribution"^{1/}, is supplemented by the independent plans of the enterprises themselves. The enterprise itself is part of an economic branch, which is typically headed by a ministry or an Economic Council representing several ministries; these agencies are called "administrative organs". The "proportions" fixed by the Social Plan refer in general to the branch rather than to the enterprise; the individual enterprise under the Social Plan has the following obligations:

(1) It must produce a certain amount of goods, depending upon the amount of fixed capital at its disposal; the composition of the goods is not specified.

(2) It must pay a "contribution" equal to a certain proportion of its fixed wage bill, and a "tax" equal to a certain proportion of its variable wage bill, which in turn depends upon earned profit. The latter proportion is uniform for all enterprises, but the former varies from branch to branch. Both fixed and variable wages are based upon productivity, i.e. on piecework rates. "Working norms must be established so that the social plan . . . can be realized within regular working hours without surpassing the fixed wage fund."^{2/}

(3) In cases where the government considers it of major importance to develop a particular enterprise, construction at the enterprise will be treated as a part of the "basic investment plan", and the plant will be required to complete it on schedule. Such investment may be financed out of earned profits, or, if these be insufficient, out of budgetary funds.

(4) The enterprise may, in addition, finance additional expansion out of that part of profits which is not used for variable wages and taxes. Such expansion will be encouraged by provisions specifying the maximum percentage of profits which may be used for variable wages.

^{1/} Kidric, Borba, August 26, 1951.

^{2/} Draft Law concerning the Wage Fund of Economic Enterprise, Article 11.

Thus the enterprise is required to produce a certain minimum amount of goods and to complete a certain minimum construction program. It has an incentive to cut labor costs: the lower the wage bill, the smaller its "contribution" will be, and profits will therefore increase by an amount exceeding the savings in wages. It has an incentive to modernize and expand its equipment, since it can then produce more for a given expenditure on wages. It has an incentive to satisfy consumer demand, since it can vary the types of goods it produces; and it can react to shifts in demand by changing output and prices. In this way, the government hopes to provide incentives for efficiency and flexibility in production sales and policies, hitherto lacking in Yugoslav planning.

There continue, however, to be controls over the individual enterprise. Thus Article 31 of the Draft Law on economic planning states that:

In order to ensure the fulfilment of obligations arising out of the basic proportions established in the Social Plan, the administrative organs may issue and enforce regulations to ensure the execution of the plan provided it has been established, or is foreseen, that the economic organizations will be unable to carry out their obligations ... as set forth in the basic proportions laid down in the Social Plan.

Thus a higher agency may intervene when a lower agency (either an individual enterprise or a ministry) is not carrying out its obligations. Such intervention appears possible in the event that either the Social Plan or the independent plan is being violated. It may involve:

- a) contracts covering future transactions of the economic unit,
- b) specification of terms of contracts to be concluded among particular economic units,
- c) purchase of the entire output of certain agricultural crops,
- d) cancellation of contracts between individual producers,
- e) price-fixing,
- f) control over the amount of working capital of enterprises,
- g) direct allocation of raw materials and finished products,

h) licensing and, in some cases, prohibition of exports and imports of particular commodities.^{1/}

In extreme cases, the administrative organs may appoint a new management of an economic enterprise, as a means of ensuring the execution of the Social Plan.^{2/}

In other words, the government has reserved the right to use controls of the general type existing under the old legislation, where such controls are necessary to ensure the fulfilment of the plan. In an economy where virtually all economic activity except agriculture has been nationalized, it is scarcely surprising that the government should make such reservations. However, such direct intervention is to be a last resort,^{3/} rather than a normal and proper method of everyday procedure. To the extent that the new legislation established a workable form of economic organization, such intervention should be unnecessary.

The changing role of prices in the new legislation

The permission granted to the individual enterprise to fix its own prices and to vary at will the type of production in which it engages, represents a major change in attitude on the part of the Yugoslav government, even though it may be modified in detail by the direct controls contemplated in Articles 31-35 of the Draft Law. Under earlier legislation; the plan specified not merely the total output of each enterprise, but also the volume and price of each item to be produced;^{4/} moreover, only a part of the sales price of each item was treated as the revenue of the enterprise, and the remainder was paid to the state as a "tax on production", which in fact was a sales tax, although the planning authorities objected to the use of the term.

There were two purposes underlying this arrangement. The first was to concentrate in the hands of the State as much revenue as possible, in order to make possible as extensive a development program as possible. The "tax on production" diverted resources to the uses desired by the State without ever letting them pass through the books

^{1/} Article 32 of the Draft Law on Economic Planning.

^{2/} Ibid., Article 33.

^{3/} For example, Article 34 of the Draft Law provides for appeal by economic organizations which have been subjected to such direct intervention by administrative organs. Under the earlier legislation, no such appeal was permitted; the individual enterprise existed virtually at the pleasure of the administrative organs, and merely for the purpose of carrying out the desires of the State.

^{4/} As recently as January 1951 laws strengthening such price fixing were being published. Sluzbeny List 4/51, No. 59.

of the individual enterprises. This procedure recommended itself because it resulted in speedy collection, and because it made the proceeds independent of the financial situation of the individual producers or sellers. The second purpose of the tax was to encourage efficiency of enterprises. By adjusting the size of the tax, it was possible to keep the revenue of the enterprise very close to costs. If the enterprise did not operate as efficiently as planned, it would become short of funds and the difficulty would at once be brought to the attention of the planning authorities. Moreover, under these conditions, a small percentage reduction in production costs would lead to a large percentage increase in profits, with corresponding increases in bonuses available to workers and management.^{1/}

The practical result of this procedure was apt to be the creation of gluts and shortages of particular consumer goods. It was not so bad in the case of capital goods, where the production process was long, the number of enterprises involved in the manufacture of any item was small, and the government was sensitive to any possible disturbances of the development program. However, in the field of consumer goods production, according to Kidric,

... It has happened that the market would demand one kind of product while the enterprise would go on for months producing quite a different kind of goods, although by using the same raw materials and the same skilled labor it could have produced the kind of goods the market demanded. Under the old system of planning and finance, an enterprise was not compelled by its own self-interest to worry about the assortment and quality of goods. If an enterprise is compelled by its own interest to be concerned with the assortment and quality of goods, it will produce the assortment and quality of goods demanded by the market.

There has been a similar situation with respect to prices. Under the previous planning and financial measures the emphasis was on so-called economic prices, i.e. prices which would make possible the quick sale of the goods and at the same time the maintenance of sufficient working capital ... Prices were directed mainly from above and it was almost impossible to correct them in practice by following the trend of the market ... For this reason there were occasional shortages of goods in some sectors although production might be much greater than before the war, and occasional accumulations of unsalable goods in others.^{2/}

^{1/} A brief exposition of these views is found in two earlier speeches by Kidric: "An Explanation of the Basic Law on State Economic Enterprises" (Borba, July 21, 1946) and "The Social and Economic Significance of the Economic Regulations of the Union Government" (Borba, January 27, 1947). Both are reprinted in the collection Privredni Problemi FNRJ, Zagreb, 1950.

^{2/} Borba, August 26, 1951.

The difficulties of which Kidric speaks are not confined to Yugoslavia but are characteristic of communist economics. For example, in his 1950 budget message, the Soviet minister of Finances, Zverev, stated that

The government has forbidden trading organizations to accept from industry goods of low quality or lacking in variety. However, trading organizations frequently do not make adequate demands on industry, do not adequately control the fulfilment of contracts by shippers, and accept shipments of low quality goods not fulfilling the assortment plans.^{1/}

In his 1951 budget report, he made a similar complaint:

... Trading organizations still frequently deliver goods to the trading network with delays, and without considering seasonal demand conditions. There are also facts which show an inadmissible violation of contract conditions as to the proper assortment of goods shipped by industrial sales organizations. There is a glut in some industrial sales organizations and consumer cooperatives at times when other areas have shortages of these goods in their retail trade system.^{2/}

Whereas the Soviet reaction (and indeed the former Yugoslav reaction) to this difficulty is to restrict further the enterprises in the selection of types of production; the Yugoslavs now have removed price control and permitted enterprises, within a specified level of total production, to vary the composition of their output at will. Under the former tax system, such a procedure would have been difficult, but under the "contribution" system, where the tax on production is replaced by a tax on wages, the administrative problems would seem to have been greatly simplified. By varying the size of the contribution and of the tax on "variable wages", the government should be able to obtain the funds necessary for its development program, especially if it carries out its declared intention of increasing the proportion of self-financed construction in total construction. By holding down the size of the contribution in industries selling directly to the State (development and defense industries, in particular), the government may be able to avoid undue increases in its expenses in these areas. Finally, the new legislation may make it possible to abolish rationing

^{1/} Stenographic report of the Supreme Soviet of the USSR, 1950, page 50.

^{2/} Pravda, March 8, 1951.

and to permit prices to operate both as a check upon consumption and a stimulus to output.^{1/}

The role of credit in the new legislation

The emphasis upon financial incentives at the enterprise level suggests that a revision of Yugoslav legislation on credit may be expected. Under the previous systems, the banks controlled the operations of enterprises by means of a direct supervision of inventories, sales, and purchases; this system required a continuous and detailed analysis of payment documents, to make sure that the various regulations were obeyed. Consequently, the banks did not have the same functions as in other countries. The National Bank granted commercial credit, but on the basis of numerous specifications established in the economic plan; and with relatively little discretion. The State Investment Bank, operating primarily with budget funds, was the main instrumentality for handling development expenditures; however, the development plans were prepared by a cabinet agency rather than the bank itself, and the bank did not pass upon the merits of the projects, but was limited to the supervision of the construction operations.^{2/}

So far, only one law seems to have been passed on the subject of credit. It deals with credit to cooperatives and states that the National Bank will grant credit to cooperatives only on the basis of their creditworthiness; creditworthiness is measured by the regularity with which the cooperative meets its obligations; and the National Bank is the sole judge of creditworthiness.^{3/} The law is brief and does

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- ^{1/} Marshal Tito declared in a speech on September 24, 1951 at Titovo Uzice: "We have already sufficient resources today to supply our people without the use of ration cards. Therefore we have decided to increase the wages of our workers to the amount of the value of points and ration cards. It is quite possible that some unscrupulous people will attempt to raise the prices of their products during the first few days, but they have no right to do this because their production costs have not gone up. As I said, the only change that is to take place is that workers will now receive in dinars what they received in points and ration cards so that they may be able to supply themselves in the open market. The State will vigilantly follow price fluctuations." Here is a continuation of the new policy, and of the remnants of the pre-reform view, which held price increases to be "speculation" by "capitalists". Presumably it reflects a certain division within the Yugoslav Communist Party, to which Kidric specifically refers, over the merits of the new system.
- ^{2/} The 1951 legislation on the Construction Plan (Sluzbeny List 14/51, No. 152), does not differ markedly from earlier legislation.
- ^{3/} Sluzbeny List 20/51, No. 203, April 15, 1951.

not mention an obligation of the Bank to consider the cooperative's production plan, inventories, compulsory deliveries, etc. It thus presages a major change in the role of the Bank.

There has been some discussion of the problems which the banks will face in dealing with the criterion of creditworthiness. One author^{1/} discusses the profitability of state-owned enterprises and its relation to profitability of private enterprise. Another author^{2/} points out the possibility of entrusting the Bank with the planning of investments and of using long-term credit as a means of financing capital construction. Such a procedure would mark a considerable change in the basic legal and institutional structure of the country. Profitability would become a major criterion in unifying investment programs; and enterprises would acquire, in addition to the profit incentive, a type of ownership incentive to better care and utilization of their fixed assets.^{3/}

The abolition of rationing mentioned in the preceding section of this paper will further strengthen the role of the National Bank in economic control. Under the Yugoslav rationing system, multiple prices existed on most goods sold internally and a system of "cash coupons" was used as one form of remuneration to favored groups in the population. When rationing is abolished; this "secondary currency", which is not issued by the National Bank, will of course disappear from the economy and notes will become the only form of money used in retail trade.^{4/}

- ^{1/} Dr. Kosta Vasiljevic, "The Profitability of the Enterprise in the Light of the New Financial System", *Finansije*, No. 5-6, 1951, p. 270.
- ^{2/} Rad. Zivanovic, "The Significance of the State Investment Bank in the Former Method of Financing Investment and its Place in the Future Financial System", *Financije*, No. 5-6, 1951, p. 300.
- ^{3/} Under earlier legislation, fixed capital was given the enterprise on a trusteeship basis. The property belonged to the State, and the enterprise consisted merely of the organization operating the facilities. If fixed assets are purchased on credit, the enterprise, upon repayment of the credit would presumably become the owner of the facilities. For a statement of the earlier relation of the enterprise to the fixed assets it operated, see Pavao Radovcan, *Drzavna Privredna Poduzeca*, Zagreb, 1949 (?), especially Chapter 3.
- ^{4/} Kidric, in his address of October 7, 1951 to the Second Congress of the Yugoslav trade unions, stated that at the end of August 1951, there were 53.8 billion dinars of notes and cash coupons in circulation. August data for note circulation are not available, but at the end of June, note circulation was only 37.1 billion dinars. Normally, there is a small seasonal increase in note circulation from June to August, but of not more than one or two billion dinars. It is therefore clear that the volume of cash coupons is about one half of the volume of notes.

It seems likely that the shift from direct controls to indirect controls, with its corollary change in emphasis from production to profits, will soon require a corresponding shift in the emphasis of credit management. In place of a set of controls based upon inventories in relation to planned physical production, it will probably be necessary to adopt a set based upon some concept of creditworthiness in terms of profitability. So far, however, no reform of the credit structure (other than the change relating to cooperatives) has taken place to correspond to the changes in industrial management and planning techniques.

Foreign trade and exchange controls

Legislation concerning foreign trade and exchange controls is being changed in a manner similar to that concerning the internal economy. Until 1950, the Ministry of Foreign Trade conducted all international transactions. In 1950, the Ministry was reorganized and the republics established foreign trade administrations.^{1/} Under this arrangement, a central foreign exchange fund at the disposal of the Union Ministry of Foreign Trade and separate foreign exchange funds at the disposal of the various republican ministries, were established.

On October 6, 1951, the Union Ministry of Foreign Trade was abolished and its functions transferred to the Economic Council of the Yugoslav Government, the Ministry of Finance and the Ministry of Foreign Affairs.^{2/} This change was accompanied by a reorganization of the cabinet, in which the former Minister of Foreign Trade, Milentije Popovic, became Minister of Finance, and the Minister of Finance, Dobrivoje Radosavljevic, became a member of the Economic Council. It is not yet possible to determine whether any substantive changes in foreign trade controls are involved in this reorganization, or whether import and export licenses are continued as before, only under the jurisdiction of another agency. The following comments therefore relate to the period before the announcement of October 6, 1951.

Since 1950, export and import permits have been handled through the republican ministries, on behalf of the enterprises which actually conduct the foreign transactions. Thus Yugoslav enterprises are permitted to engage in foreign transactions, instead of dealing, as previously, only with the Ministry of Foreign Trade. The regulations specify different treatment for industrial and agricultural transactions.

Exporting industrial enterprises are given export plans. Since the legislation on this subject was passed prior to the publishing of the draft laws on economic planning, it is not possible to determine how the export plans are prepared, that is, whether they are a part of the Social Plan or whether they are prepared by the

^{1/} Borba, June 25, 1950; Politika, June 30, 1950.
^{2/} TANYUG report, October 6, 1951.

enterprises themselves. The exporter may retain a portion of his foreign exchange proceeds. On exports, up to the level specified by the plan, the amount retained is fixed differently for different branches of the economy, but 80 percent of the exchange proceeds from above-plan exports (and all proceeds from the export of goods not included in the export plan) is retained by the enterprise, and the remainder shared equally by the Union and the republican exchange funds. This provision suggests that the export plan is a part of the Social Plan, since otherwise the exporters would have an incentive to make their independent export plans as small as possible in order to retain as much exchange as possible on above-plan exports. Retained export proceeds may be used to finance planned imports, for which licenses are given by the republican ministries.1/

Agricultural exports are divided into two groups: Group A, for which export plans are given, by commodity, and Group B, for which plans are not made. Enterprises exporting commodities on the Group A list (which in 1951 includes most commodities) retain from 0.5 to 10 per cent of the exchange proceeds of exports up to the planned level, and 80 percent of above-plan exports; enterprises exporting goods on the Group B list retain 50 percent of all exchange proceeds. The term "enterprise", as applied to agriculture, relates typically to republican administrative agencies and not to individual farmers or cooperatives whose output is exported. In this way, a degree of centralized control over exchange proceeds is achieved, which will ensure that the proceeds are used for the importation of capital equipment rather than consumer goods.2/

All foreign exchange earnings, whether at the disposal of the exporter or of the various ministries of foreign trade, is deposited with the National Bank. Payment documents of exporters are deposited currently with the National Bank and quarterly adjustments are made to ensure that the allocation of proceeds has taken place according to law. Exporting enterprises may sell their retained foreign exchange earnings to the National Bank, but apparently not to importing enterprises.3/

This legislation will presumably raise a number of new problems in Yugoslav foreign trade controls. Formerly enterprises never received any foreign exchange and did not deal directly with foreign concerns. Now they are able to engage in international transactions and are permitted, under limited conditions, to hold foreign exchange. The exchange rate of the dinar will thus acquire a certain significance which it did not formerly possess. In this sense, the new legislation breaks down the isolation between internal and international transactions in Yugoslavia and indicates the possibility that the dinar will become,

1/ Sluzbeny List 22/51, No. 27, April 9, 1951:

2/ Sluzbeny List 22/51, No. 228-229, April 14, 1951.

3/ Sluzbeny List 22/51, No. 231, April 17, 1951.

in some limited sense, an international currency. It marks also a sharp cleavage between the practices of Yugoslavia and of the Soviet bloc, where the foreign trade and exchange monopoly of the state (and its concomitant centralization of trading and exchange operations) is a basic article of faith.

Conclusions

The result of our analysis of the change in Yugoslav economic policy may be summarized in the following theses:

1. The Central Government will continue to be able to direct the course of the economy, and especially of development expenditures, into those sectors of the economy that it wishes to favor.
2. In doing so, the Government increasingly will use methods of fiscal and monetary policy rather than direct controls.
3. The Government will simplify its administrative problems by creating a system under which the state planning apparatus is less continuously involved in current operations.
4. The Government will simplify its cost calculations in allocating the country's resources by introducing a price system as modified by a system of taxation.
5. The Government may be able to improve conditions by changing its incentives from fear of the consequences of non-fulfilment of the economic plan to hope for gain from overfulfilment.
6. The Government may be able to improve somewhat the position of consumers by facilitating the adjustment of consumer goods production to market demand through the abolition of allocations and "assortment plans" in consumer goods industries.
7. The Government has eliminated the isolation of internal prices from world market prices by permitting enterprises to engage directly in international transactions.
8. In the short run, however, these measures are unlikely to raise substantially the level of production and consumption since the country's basic economic difficulties are due primarily to inefficiency of management and low productivity of labor.