

THE ECONOMICS OF WORKERS' MANAGEMENT

A Yugoslav Case Study

Jan Vanek

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JAN VANEK

London

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First published in 1972

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FOREWORD

This volume contains major excerpts from a study undertaken in 1968-9 within the framework of the Programme on Comparative Economic Development of Cornell University (Ithaca, New York State). In view of his earlier contacts with and publications on the Yugoslav system, the author was approached by the Directors of the Programme with a view to preparing a monograph on the theory and practice of the economic system of Yugoslavia based on the worker-managed enterprise. Since an understanding of the behaviour of such self-governing producer firms operating within a competitive market is an essential prerequisite for any more general study of the economics of the system, it was agreed that the behaviour and performance of the worker-managed enterprise should provide the central theme of the investigation. Beyond these brief initial contacts, however, the author received no further technical advice, directive or help from the Directors of the Programme. The planning and implementation of the study, as well as the views and conclusions expressed therein, are entirely his own, as indeed is the responsibility for all possible errors, omissions or misinterpretations of fact and opinion.

Most major items of the background literature frequently referred to in the preparation of the study are listed in the bibliography.

In Yugoslavia, the author met with a remarkable amount of goodwill and co-operation on the part of various institutions, organizations and individuals too numerous to mention. Special thanks are due to all those who, particularly in the difficult circumstances of the spring and summer of 1968, generously gave their time and energies to provide information and guidance and to discuss the obscure and abstruse points arising in the initial stages of a complex model-building exercise. The Yugoslav Federal Council of Labour was of particular assistance, being instrumental in the implementation of the author's programme of visits to individual enterprises.

The bulk of the information and documentation used in preparing the study was collected directly by the author according to his own plan of work. The views based thereon are entirely his own and have not been discussed with or approved by any Yugoslav authority or organization.

The first draft of the manuscript presented here was completed between November 1968 and May 1969. Even though it does not fully cover all the various aspects of the behaviour and performance of the worker-managed enterprise, it is hoped that the study as it stands will be of help to the growing number of those who, throughout the world, are seriously attempting to understand the economic implications of a decentralized market economy based on public or worker-managed enterprise, and may welcome an introduction to the theory and practice of the Yugoslav form thereof.

It would be presumptuous to address a similar wish to the Yugoslav readers, who have their fill of both as part of everyday life and work. It is they, however, and indeed all the Yugoslavs, young and old, learned and

THE ECONOMICS OF WORKERS' MANAGEMENT

illiterate, who were foremost in the author's mind when at his desk, and who were in a sense responsible for his accepting the real ordeal of an all too hurried attempt to compress, in a few abstract and inadequate formulae, their infinitely richer and real experience of man's uneasy progress in mastering his conditions and his future. This modest contribution to the understanding of human destiny must rightfully be dedicated to them all.

J.V.

CONTENTS

Foreword	page vii
INTRODUCTION	xiii
<i>The Specific Object of the Study</i>	xv
<i>Method, Sources and Scope</i>	xx
<i>General Presentation and Plan of the Study</i>	xxiii
PART ONE—WORKERS' MANAGEMENT IN YUGOSLAVIA : AN OVERVIEW	27
I The Yugoslav Setting: Geography, Population, Social and Economic Background	29
II Self-government of the Working People and Workers' Management: Objectives and Means of Implementation	39
<i>Economic Objectives and Policy Instruments</i>	42
<i>Socio-political and Welfare Objectives</i>	45
III Institutional Background and General Economic Policy	55
<i>Territorial Self-government and the Federation</i>	55
<i>Political and Social Organizations</i>	60
<i>Economic Organizations and Social Research</i>	64
<i>Economic Policy and Planning, 1950-68</i>	69
IV The Worker-managed Enterprise as an Institution	84
V Enterprise Planning and Income Distribution Process	107
<i>The Role of Planning in the Yugoslav Firm</i>	110
<i>The Technique of Income Distribution</i>	115
PART TWO—THE ECONOMIC BEHAVIOUR OF THE WORKER-MANAGED ENTERPRISE	135
VI General Models of Economic Behaviour (1) The 'Illyrian' Firm of Professor Ward	138
VII General Models of Economic Behaviour (2) Realistic Models in Yugoslav Theory and Practice	154
(a) <i>The Emancipated Labour and Profit or Surplus Value Maximizing Enterprise</i>	155
(b) <i>The Producers' Income Maximizing Enterprise</i>	161
VIII General Models of Economic Behaviour (3) The Pragmatic Enterprise Centred Models	171
(a) <i>The General Productivity Model, or Uniform Indices of Business Success and Income Distribution</i>	173
(b) <i>The Enterprises' Own Models and Actual Patterns of Behaviour</i>	179

ix	General Models of Economic Behaviour (4)	
	Elements for a Preliminary Synthesis	189
	(i) <i>Towards a Vectoral Model</i>	194
	(ii) <i>The Vectors</i>	197
	(iii) <i>Potential Uses and Limitations</i>	210
x	The Medium- and Long-term Policy of the Enterprise (1):	
	Capital, Investment and Growth	215
	(i) <i>General Survey of Growth-oriented Activities of a Worker-managed Firm</i>	217
	(ii) <i>The Capital Resources of the Yugoslav Firm: Physical and Financial Assets, their Origin and their Management</i>	220
xi	The Medium- and Long-term Policy of the Enterprise (2):	
	Amortization, Interest and Loan-financing	252
xii	Further Aspects of Enterprise Behaviour	271
	A. <i>The Actual Economic Behaviour of the Firm</i>	272
	(a) Capital, Interest, Investment and Growth	272
	(b) Labour, Work, Employment and Skill	276
	(c) Current Business Management, Production and Marketing	280
	(d) Remuneration for Work and Overall Distribution of Personal Incomes	283
	B. <i>Other Relevant Aspects of the Economic Behaviour of the Worker-managed Enterprise</i>	286
	Bibliography	
	<i>Introductory Note</i>	292
	<i>Table of Contents</i>	294
	<i>Bibliography</i>	295
	Index	309

TABLES

I Social and economic characteristics of Yugoslav peoples according to principal territorial divisions	page 31
II Aggregate behaviour of the Yugoslav economy 1952-68: Production and employment by major sectors; Employment prices and incomes	80
A. Numerical indices	80
B. Annual rates of growth (quarterly indices)	81-2
III Major characteristics of the existing worker-managed enterprises in Yugoslavia: Workers employed, value of assets, volume of production (1966)	94
A. Numerical indices	94-8
B. Examples of typical distribution of the enterprise population in Yugoslavia (1961-2)	99
IV Entry and exit of firms in 1960 and 1961	104
V Elaboration and adoption of annual plans within the enterprise	112
VI Summary and annual accounts reflecting the income distribution process	122
VII Extract from social accountancy survey of enterprises: annual balances and accounts, 1959-60	125-7
VIII Comparative value of product of selected sectors according to various price formulae	168
IX A graphical representation of the vectoral model reflecting the interest spectrum of the enterprise work collectivity	209
X Capital intensity, accumulation and yields in the principal sectors of the Yugoslav economy	222
XI Production, money and credit, 1964-8	230
XII Industrial production, investment goods, industry and investment in fixed assets (Rates of growth 1954-67)	232
XIII Value of fixed assets in Yugoslav economy 1952-60	234
XIV Value of active assets of enterprises 1958-67	234
XV Total yearly expenditure for investment in fixed assets 1957-67	235
XVI Net income of enterprises and its allocation to their various funds 1962-6	236
XVII Financial reserves and liabilities of enterprises 1957-67	237
XVIII Extracts from the 1967 and 1968 annual accounts of the worker-managed enterprises	253

Introduction

LABOUR IS NOT A COMMODITY—this revolutionary claim made in protest against early capitalism, and first spelled out in the 1848 Communist Manifesto, is nowadays widely accepted in social theory and would hardly give rise to much doctrinal controversy. It has even achieved official status within the world community as the introductory statement to the 1944 Philadelphia Declaration, preamble to the constitution of one of the United Nations' agencies, the International Labour Organization.

There is little doubt that in the course of the last hundred years, through a succession of changes, gradual as well as revolutionary, the status of labour in modern industry has been greatly enhanced in the actual practice of many countries, and the work relationship can only exceptionally be conceived of as a mere exchange of labour power against cash payment. Social security, legal or conventional minimum wages and other protective clauses, job security arrangements and various schemes for workers' participation all tend, to a varying degree, to transform the status of the workers in the enterprise. Indeed, there is a growing number of national systems or other instances where, through the cumulative effect of these various clauses and arrangements, the worker is made, albeit to a limited extent, a member of the enterprise or work organization.

These developments are clearly irreversible, for they correspond not only to basic requirements of justice and progress in the social and political fields, but above all to structural changes affecting the modern economy. On the whole such developments have been closely watched by specialists in most social sciences including, more particularly, labour sociology and law, political science and management. However, so far, they have received only scant attention from the various schools of political economy, East and West, even though they are most probably at the roots of some of the new problems facing economic policy makers which cannot be accounted for by classical theory. To a large extent these remarks are also applicable to Yugoslavia, despite the fact that since 1950 it has centred all its policy on the development of an economic system tending to give effect, in very specific and concrete terms, to the watchword referred to in the opening sentence.

It is understandable that the political implications of the transfer of factories to the workers, its impact on management techniques and social relationships, and even the impressive legal and institutional build-up of the Yugoslav workers' council system should have been the first thing to catch the attention of the hasty observer or commentator. Nor is it easy to reshape or even to replace the venerable tools of economic analysis inherited by the various economic schools from their classic forerunners. However, this must be done if the new system is to be appraised, in as much as it has attained its main objective in emancipating labour from the passive role of commodity, of a mere factor of production, and in making the working man bear the prime responsibility for, and reap the benefits of, all the economic activity.

All basic concepts of economic thought and policy call for re-adjustment in the light of this fundamental hypothesis.

It is the aim of the present study to contribute, in a modest manner, to the understanding of the economic system based on workers' management, with particular reference to Yugoslav theory and practice. It is not intended, however, to explore the system in its entirety but to concentrate in the main on the economic behaviour of the worker-managed enterprise and its performance, leaving aside problems of general economic policy arising out of its operation, such as national and regional planning, or financial and fiscal policy. It would be impossible to present such a full picture of the system in a single monograph. But the main justification for such a choice lies in the fact that the behaviour of the worker-managed enterprise as a subject of economic decision-making has hardly ever been explored in a systematic manner, even though this is obviously an essential prerequisite for the development of rational economic policy and planning in an economy based on workers' management. Such an approach may also be of greater interest to those who practise or intend to introduce more limited systems of workers' participation.

The limitation of the scope of our investigation is more open to criticism in so far as it excludes the social and political implications of the system. The worker-managed enterprise is not a mere collection of productive assets administered by or for an outside capitalist owner or owners, or a mere technical administrative unit of a centralized system of planning and managing of the economy; it is essentially a specific type of association of people (the workers or producers) grouped primarily for production purposes, but who while at work cannot set aside their social aspirations and preferences, and who necessarily must play a major part within the political system. In other words, while the two major economic systems which at present divide the world are compatible with a wide variety of socio-political or constitutional systems and can therefore be studied in relative isolation, the worker-managed enterprise is an inseparable part of the wider social and political system and constantly interacts with the latter. In this, it shares certain common features with the system of local self-government (communes) as it exists in most countries of the European continent, and with the self-governing craft corporation of the medieval city states—neither of which could be examined in isolation, but only as part of a wider socio-political framework.

Practical considerations also make it impossible to give a full account of the social and political theory, or of the Yugoslav practice, which derive from the operation of the worker-managed enterprise. But in examining the latter every effort will be made to bring to light the various possible or necessary interactions with the wider socio-political system and their effect on the behaviour and performance of the enterprise.

Finally, a full understanding of the self-management system as practised in Yugoslavia would require a separate treatment of its historical background and development. Here too, the limitations of space and time rule out such a systematic approach to our subject, but wherever relevant the historical dimension of the system will be briefly covered.

The Specific Object of the Study

The object of this study, more specifically defined, consists in developing, against the background of Yugoslav theory and practice, a general theory of the behaviour of economic productive units (the enterprises), managed by those who work therein (the workers or producers) whose reward for work is their share in the group's net income. The choice of the Yugoslav background is imposed by the fact that this is the only country where there is a consistent body of doctrine and practical experience relating to the operation of such an enterprise. This in a sense is a rather severe limitation, for clearly in other circumstances different patterns of behaviour may be expected to develop. Yet, as will be seen, the Yugoslav experience of nearly twenty years' standing is sufficiently complex and diversified to provide enough material for a full-scale encyclopedia, and a full exploration of most of the individual topics we propose to deal with would warrant a major treatise. Where possible, we shall nevertheless introduce relevant elements of non-Yugoslav thought and practice.

The model of the 'worker-managed enterprise' or 'Yugoslav firm'—as we may sometimes designate it for the sake of brevity—may be briefly stated as follows:

'Workers associate freely to form productive or other business enterprises which they manage either directly or through representative bodies. The workers' collectivity includes professional administrators, technicians, clerical and other personnel who all enjoy equal rights within the decision-making process, each performing the tasks assigned to him in accordance with his qualifications and aptitude. New members are recruited by the collectivities when required or desired, and existing members may leave if they wish; they cannot be expelled except for a clear reason, and then only in accordance with statutory procedures.

Each enterprise collectivity is fully independent in formulating its plans and policies and in the day-to-day operation of the business. It may associate with others, operate mergers, set up new enterprises or divide itself if so desired by a section of its membership. It can adopt any form of internal organization it sees fit and, more particularly, can constitute such autonomous self-governing work groups or sections as may suit its operations. It has to conform to the laws of the land but the latter must not discriminate in favour of or against any enterprise in particular.

Initially the work collectivity is given such assets as are necessary for the normal operation of the firm. The initial value of these assets must be maintained through adequate depreciation provisions and may be subject to interest up to a maximum fixed by law. Further investments may be financed either from the collectivity's own current income or through outside loans (normally subject to interest and repayable).

The results of the firm's economic activity are disposed of freely through the market. The difference between the cost of production and the market price, if any, constitutes the firm's income which the workers' collectivity may share out among its members, directly or in the form of common

services, or retain for further expansion of the business, or in the form of a reserve fund. If the firm runs into deficit and cannot secure a loan it will be wound up or reorganized and the workers' collectivity as such will cease to exist.'

The enterprise thus defined is a highly abstract model reflecting only the most essential features of the 'Yugoslav firm'. The general economic system within which it operates has hardly been touched upon. Nor has the actual purpose of the firm's operation been fully revealed.

However, the indications given so far make it clear that such a firm has very little in common with the usual model of private or public enterprise. The main difference rests in the fact that it is managed *from within*, by those who are actually working members of the collectivity and who also bear the risk of, and appropriate the results of, their work and management activity. No such rights attach to the ownership of capital. Hence, the very concept of capital or investment is radically transformed. Similarly, labour vanishes as an abstract economic category procurable at a set level of wages, and is replaced by human beings who regulate their own activity and share out the results thereof. Where no wage is payable even the category of production costs loses its familiar features. Finally, no abstract criteria of economic rationality, such as profit maximization or a high rate of growth, can be imposed by outside owners. Hence the entire edifice of economic doctrine is likely to break down in the face of the unpredictable and possibly 'irrational' behaviour of the 'associated producers'.

These few remarks suggest the two main directions of the investigation. It seems essential to consider whether the worker-managed enterprise can behave in an economically rational manner, and if so what are the criteria and conditions of such rationality. The first step is to define the essential characteristics of the general behavioural model of the worker-managed enterprise and a second stage is to analyse in greater detail the position within such a general model of some of the basic categories common to all economic systems, such as capital, investment, labour and employment, production, prices and incomes, always in the light of the behaviour of the worker-managed enterprise. A number of related general issues, which are particularly relevant for the understanding of the behaviour of the Yugoslav firms, will also be examined within this framework; they include the setting up, liquidation and other changes in the firm's status, the methods of internal decentralization and work group autonomy, problems related to professional management, initiative, responsibility and a number of others.

At this stage, it must be made clear, however, that this investigation is not pursued, as it were, in the dark, without a working hypothesis based on practice. The autonomous worker-managed enterprises undoubtedly exist in Yugoslavia; they accomplish a wide variety of functions in the economic, social and political sphere. They do not pursue one single economic objective imposed from the outside, but aim at multiple targets determined from within, which vary in time and space according to local conditions and preferences. Yet they have shown a quite remarkable capacity to produce and to develop,

to react swiftly to changing conditions and policies. All these are well-known facts of everyday experience which can be briefly recalled but do not require demonstration.

In a sense, therefore, this study deals not with an abstraction, but with a very concrete type of autonomous work organization, the worker-managed enterprise as it exists in Yugoslavia, which represents a definite interest aggregate of real people living in a given time and space. Within this specific framework will be investigated and examined their real behaviour in different concrete sets of circumstances and an attempt made to apprehend their actual motivation, the causes which prompt them to act or react in one way or another, to make their choice among the numerous alternatives they are facing at any one moment of their existence.

This dual approach, aimed at ensuring a constant confrontation of practice and theory, seems indeed absolutely indispensable in this case. This study deals with an entirely new and unprecedented system of economic organization, an economic system in its own right, pursuing its own distinct aims and objectives, having its own institutions and norms of behaviour, its own distinctive features of concrete existence. A purely theoretical approach is fraught with serious dangers. Consciously or not, objectives, values and norms of behaviour belonging to other systems are assumed by foreign observers, and often even by Yugoslav authors, to apply to the behaviour or performance of the Yugoslav firm, so that the latter are inevitably found wanting, anarchical or self-contradictory. In reality such a firm or its workers are simply in no position to conform to norms which are entirely alien to them—no more than self-employed peasants or craftsmen could act as private capitalists or as parts of a central planning system, for were they to do so, they would rule themselves out of existence.

It therefore seems axiomatic that the worker-managed enterprise can only be usefully studied within its own frame of reference and against the background of its own objectives, values or norms, which in turn cannot be derived from pure theory alone, but must be constantly confronted with actual practice. Conversely, a purely practical or pragmatic approach, as is often encountered in monographs or case studies dealing with individual enterprises, offers no general explanation of the observed phenomena and faces the twin pitfalls of systematic eulogy or condemnation according to the subjective disposition of the author.

The dual approach that follows corresponds to the very essence of the Yugoslav self-management system, for it is the constant confrontation, or even conflict, between general theory (including corresponding policies) and enterprise practice which confers on the system its very specific and quite exceptional dynamism and adaptability. Indeed, the reality of workers' management can truly be grasped only through the constant change and diversification of all its features.

Change and diversity (provided they derive from the conscious activity of the working people) constitute the very essence of socialism as it is understood in Yugoslavia. Hence, any approach based on the concept of static equilibria or economic balance is fundamentally alien to, and incompatible

with, both the theory and practice of Yugoslav workers' management.

A last word of caution. Like any other system, the Yugoslav experiment is first defined by its general goals, which it shares with all other sections of the labour movement based on Marxist socialism, but which command a very distinct set of subordinate objectives and operative principles. These give particular prominence to the concept of the withering away of the State, including the system of central planning, and to the right of the freely associated workers (the enterprises) to regulate themselves and their relationships, both through the market and through co-operative arrangements (so-called self-organization of the economy). Hence the enterprises themselves are active participants in the very process of target setting.

The position is similar with regard to the second distinct, although closely related, order of reality, which we may call the legal-institutional system, whereby the general objectives and principles are translated into norms of collective behaviour. Here again, each enterprise or firm forms its own normative system which, far from being merely informal, is explicitly recognized as an autonomous legal-institutional structure and cannot be entirely apprehended merely as a part of the general constitutional system.

At a third level, that of actual policy and practice, relatively autonomous patterns of real behaviour must also be distinguished. (As will be seen later, the distinction between the 'enterprise' and the 'others' is particularly deficient here as the 'others' include a variety of primary subjects of economic activity.) Hence no abstraction can satisfactorily account for all the real or possible patterns of economic behaviour.

Moreover, there is necessarily a disharmony, and even conflict, both within and among each of these three levels or orders of reality, once it is taken for granted that they are not the product of some outside forces, whether natural law or the invisible hand of Adam Smith, the laws of the market or the so-called 'laws of socialism' as codified in earlier Soviet manuals. They are derived by contrast from the conscious activity of men both at work and in their search for a deeper understanding of reality. This premise, which corresponds to a forceful philosophical message of pluralistic and man-oriented socialism, is therefore not merely an abstract doctrine professed by a given society, but forms a necessary part of the system as practised in Yugoslavia, and also of any other system which aims at a real workers' or producers' self-government in the economy. A 'participative' system based on a fixed set of values, institutions and modes of behaviour, imposed from without and alien to those supposed to participate, is obviously inconsistent in theory and doomed to fail in practice.

This very basic premise is often overlooked even by some Yugoslav theorists and observers, not to mention foreign critics, who tend to forget that in the context of the self-management system the workers and their enterprise collectivities alone are in a position to determine their behaviour and evaluate their performance. The Greek maxim according to which 'man is the sole measure of all things' comes readily to mind in considering the Yugoslav enterprise. In a sense, therefore, as rightly observed by a well-known Yugoslav economist, 'the worker-managed enterprise cannot err;

actually,' he adds, 'if it makes a mistake, takes a wrong decision, it is in fact reacting correctly but is prompted by *wrong* stimuli of the wider system.'¹

This may seem surprising, revolutionary perhaps, even to some Yugoslav readers. Yet it does not mean at all—as it did not for the Man of the Greek philosopher—that the worker-managed enterprise can adopt any behaviour whatsoever. It is obviously subject to innumerable constraints to which it must conform, albeit to a varying degree. To behave rationally, it must at least take them into consideration. Yet, as no one else determines its objectives and policies, the enterprise remains free (while at the same time being obliged) to make its own decisions, to choose its policy in the light of its own circumstances. In this sense, it certainly could err but only if it chose solutions contrary to the objectives it seeks to attain. In other words, in any given set of circumstances there is only one decision the enterprise may take if it is to behave rationally. But as the criteria of rationality are its own, other enterprises would be equally justified in choosing different courses of action. Nor can these be weighed against any general criteria of rationality applicable throughout the system.

It will have become apparent by now why the prime object of this enquiry is the worker-managed enterprise or its workers' collectivity, rather than the workers themselves. Such an enterprise or collectivity may take, as we shall see, most diverse shapes and forms but it cannot be defined as a mere collection or sum of the workers who belong to it. No doubt they also are, each one individually, economic subjects in their own right; they form a constraint and a motivational background from the point of view of their own enterprise, but the latter alone has a full and distinct economic existence.

To establish a clear distinction between the micro-economic level of the individual worker-producer, and simple groups thereof, a Yugoslav author has recently coined the new term 'mezzo-economy' to designate the enterprise as a specific category of economic analysis. He writes:

'The enterprise is a structure *sui generis*, an intermediary structure defined by its own specific intermediary concepts and parameters and which embraces microeconomic elements in their rudimentary form as well as embryonic elements of the macroeconomic system; thus, the concept of mezzoeconomy with its specific colouring offers a peg for the integration of plurally structured economies into the global economic system. . . . The economy of the enterprise conceived in this manner represents a concrete economic category which as an object of scientific investigation may be termed "mezzoeconomy"—for it represents one of many sub-systems of the national economy while at the same time it constitutes a complex economic system comprising numerous microeconomies (the economies of the members of the workers' collectivity).'²

This definition is particularly relevant with respect to the newer forms of Yugoslav enterprises which are increasingly taking the shape of federations

¹ Cf. B. Horvat, cited in *Gledišta* (Zagreb), No. 10, October 1968, p. 1405.

² Cf. Dr Z. K. Kostić, *Osnovi Teorije Mezoekonomije*, Zagreb, 1968, p.(v).

or looser confederacies, with several levels of autonomous and self-governing sub-systems, while at the same time forming variedly shaped alliances and functional consortia with others. The new term thus merely explicits a Proteic type of intermediary structure, found in every system but particularly stressed and formally recognized within the Yugoslav system in so far as it postulates self-government at all levels of decision and policy making.

Hence, it is the behaviour of the enterprise, and not of the individual worker, which actually shapes the whole worker-managed economy. The usual type of opinion survey among workers or managers may be relevant for some limited purposes and we may use it on occasion. Yet such surveys have no direct relevance for the behaviour of the worker-managed enterprise which has its own motivational framework, its own economic logic. To obtain some insight into the latter is the central purpose of this investigation.

Method, Sources and Scope

The above approaches to a definition of the worker-managed enterprise and the wider system it postulates clearly raise serious methodological problems for an objective study of the system, as they rule out all the usual fixed or predetermined criteria of rationality. Clearly, also, we have to penetrate a relativist man-centred universe which has so far hardly been explored by the social sciences generally, and scarcely ever been touched upon by economists, who tend strictly to adhere to the basic tenets of their respective schools of thought. This fundamental dogmatism and ethnocentrism of comparative economic science is particularly striking where the authors belong to the leading world powers. It leaves us with extremely limited tools of analysis for the purpose of this study.

Conversely, works of Yugoslav economic theory are much too outward oriented, and too involved in the day-to-day struggle to clarify and improve on individual features of the system, to provide a fully developed analytical model. We will nevertheless make a point of using to the full the results attained by the various Yugoslav schools and institutes in their endeavour to develop global or partial models of enterprise behaviour. Actually, the lack of a widely recognized economic theory of the Yugoslav system is largely compensated for by an impressive wealth of empirical studies on various specific aspects of the system which will be referred to below in greater detail.

Despite the lack of readily available theoretical background, several avenues of investigation are open. Clearly, any theory of the Yugoslav firm must rest on the analysis of the possible interest-spectrum of the workers' collectivity, economic and non-economic, real as well as virtual or 'hypothetic, present or future. As it owes its existence to Marxist ideology, the tools of Marxian economics come first to mind; they have the real advantage of being widely understood in Yugoslavia and of actually forming the conceptual background of the system. Marxist economic theory was, of course, developed as a tool for the analysis of a very specific economic system and was never meant to, or could, apply to different pre-capitalist systems such as the feudal order or natural peasant economy, or indeed to the great

Eastern empires. So in our worker-managed economy, granted that 'Labour is not a commodity', we may indeed ask what is the position of capital, of profits, interests and rent. Whither the labour theory of value and the surplus value it brings to light? All these do correspond to definite categories of the worker-managed system but in it their meaning is not merely modified but basically altered. As will be seen, we differ in this from some Yugoslav economists who, while acknowledging real modifications in the conceptual content, apply Marx's formulae directly to the worker-managed system as if it were symmetrical to capitalism (labour taking the place of capital and vice versa). Some symmetry of this kind is self-evident, but it does not hold in every respect and such an approach tends therefore in our view only to blur the picture. However ambitious it may seem, the first aim of this study is to clarify the conceptual framework against the background—as suggested earlier—of the complex interests of the workers' collectivity.

The position would be the same if the investigation was based on the conceptual framework of one or other among the non-Marxian schools of economics. The usual textbook notions, to which we may occasionally refer, call quite obviously for new definitions. This, however, does not imply an encyclopedia or catalogue of formal definitions. Such an attempt would not only be quite unreadable and of little use, but practically impossible to implement in the changing world of the worker-managed economy; despite strong attempts, the Yugoslav theorists have not succeeded in defining (and seem to have abandoned their efforts) even such basic concepts as the enterprise itself or the work relationship of its members. Indeed, Marx's monumental *Capital* is essentially a definition of 'commodity' under capitalism. Had we had time, patience and skill we could have attempted such a full-scale entry under the heading 'labour'. Lacking all three, we must leave most things to the reader's own creative imagination. As required by the subject and the state of our knowledge, the only possible approach is to remain at a very high level of generality, merely marking the limits of the areas corresponding to any given concept, and its relative elasticity, while at the same time attempting through concrete examples to show some of its real dimensions.

As for the Yugoslav practice, its central place in our analysis has just been pointed out. It may be approached at various levels of abstraction, several of which have been closely considered: these approaches fall under the following headings:

(i) *Enterprise case studies*, attempting to assemble for a number of selected typical firms all relevant data in order to bring to light the motivational background of key decisions in selected areas of policy. The idea of undertaking such a task singlehanded, or in co-operation with others, had to be discarded in view of the short period at the author's disposal. However, a considerable volume of such monographic material is available in Yugoslavia and reference will occasionally be made to it. While the existing works vary too widely in method, object and quality to supply a firm basis for comparative analysis, this approach, if made in a systematic manner, would seem to offer the only solid basis for a more general theory of the system;

only one of the major Yugoslav research institutes could undertake such a task, however.

This line of reasoning seems to have the full support of the Yugoslav enterprises. As early as 1957, in preparation for the first Congress of the workers' councils, most larger enterprises engaged actively in the preparation of reports on their own experience, often forming special study and drafting committees. Some of these extremely interesting reports were even printed in the local press but there is no evidence of their being subjected to systematic analysis. This self-assessment activity is far from extinct and, in any event, the yearly reports and accounts of the workers' councils provide an excellent basis for a systematic study of enterprise behaviour.

(ii) *Interviews* with leading members of the workers' management bodies and professional managements aimed at eliciting their understanding of the motivation and criteria for decision-making in their enterprises. Brief—mostly one-day—discussions of this kind were undertaken in twelve major enterprises selected by the author in three of the six constituent Republics of Yugoslavia and one of the two autonomous Provinces; they covered all the major types of economic decision-making recalled earlier, and were on the whole quite conclusive. Their message will be consistently reflected in the substantive parts of the study. A closely related source was casual or prepared interviews with individual members of enterprise managements, local authorities, and economic and trade union organizations.

(iii) *Systematic analysis of the enterprise summary accounts* and balance sheet which, in Yugoslavia, are available since 1958—although not accessible to the public since 1962—for all enterprises under workers' management, in a uniform presentation covering over one hundred items. They are documented by the Service of Social Audit of the National Bank of Yugoslavia, which took over the duties of the former financial inspectorates, and is responsible for the official audit of accounts of all enterprises and institutions. The annual volumes of the accounts, and balance sheets summaries have grown over the years in detail and coverage; in size they may be compared to the London or New York telephone directories. There is, to our knowledge, no equivalent in any other country in the world; it offers unlimited possibilities for correlating the economic behaviour (e.g. investment or level of social services), employment and performance (increase in value added) of individual enterprises or related groups thereof, as well as such basic data which define them as economic units (level and intensity of capital and labour input, location, etc.). A limited but rather ambitious programme for such an investigation has been drawn up, but shortage of time and lack of major institutional support made it impossible to get beyond a very tentative preliminary stage of investigation in this area. Documentation of this kind cannot be fully analysed without the help of a computer service, and requires a team of specialists. Despite their obvious interest and readiness to help, the Directorates of the S.D.K. and the Federal Office of Statistics were unable to commit their resources at a very short notice, particularly considering the

confidential nature of the data to be studied. Several partial attempts by others were brought to the author's attention and reference will occasionally be made to them also.

The preceding paragraphs account for some of the sources. However, the author could not have undertaken in good faith the present project had he not followed developments in Yugoslavia for well over twenty years in a professional capacity, and as a major subject of interest for most of that period, during which he extensively visited the country, including its enterprises.

A few additional comments seem called for concerning the scope of this investigation. There is one important area which could not be covered, that of the non-economic activities such as health, culture, the education system, research, administration and social services generally. In all these, a form of workers' management has been introduced since 1963 and operates under variously adapted rules and procedures. The arrangement stresses the economic side (costs, etc.) of all these services, the need for their efficient operation, yet it does not transform them into factories or businesses. It may indeed give rise to conflict with the major social objectives, particularly in this early transitional period. The particular problems of the economics of social services, and their behaviour when made into self-managing work organizations, are obviously of a very special nature, and should be dealt with separately.

Yet it is important to note that the self-management principle is now universally applied in Yugoslavia, and that workers' councils or similar self-management bodies are found in work organizations outside the economic sector, be they hospitals, schools, courts of law, research institutes or cultural establishments. Their staff are not wage or salary earners but members of a work collectivity, sharing out the net income of their organization or institution.

Hence, when entering into economic relationships with these institutions, particularly as their suppliers, the enterprises of the economic sector will not have to deal with the usual centralized government procurement services, but with decentralized self-management bodies not unlike their own, which act and react against the background of similar interest patterns. While going very far in the direction of institutional and local self-government in line with the 'all peoples' defence' strategy, the Yugoslav People's Army as an economic entity seems at present to be the only major institutional customer, and the last remnant of the 'public sector' in the traditional sense of the term.

Another question which needs clarification is the time span covered. This is a dynamic synthesis of the present, extending back to 1964-5, coupled with occasional excursions into earlier periods which will be duly brought to notice, and not one particular moment or an in-depth study of one particular system.

General Presentation and Plan of the Study

The present study grew out of what was originally planned as a substantial monograph concentrating on the abstract models of economic behaviour of the Yugoslav worker-managed enterprise, and covering also their actual

behaviour and performance in respect of the main areas of their economic activity. However, it soon became apparent that the subject could not be properly dealt with in such a summary manner.

First, it appeared impossible to present to non-Yugoslav readers a purely formal economic model or models of the worker-managed enterprise without a minimum of background information on the country where it operates, on its aims, objectives and institutions, including the worker-managed enterprise itself, its institutional structure and the rules and procedures governing its internal decision-making and operations generally. Although limited to a bare skeleton, such an introductory overview therefore now forms the first part of the study comprising five separate chapters. These do not purport, by any means, to give a full account of the various background items: they merely present a selection of such key data as seemed absolutely essential for the understanding of the behaviour of the worker-managed enterprise in Yugoslavia. Institutions of basic importance—such as the workers' councils or the commune—as well as other aspects of the system which would by right require separate monographic investigation, have been dealt with in a few sentences or paragraphs. It is hoped nevertheless that this expanded introduction will help in overcoming some of the difficulties encountered in most of the non-Yugoslav and economic literature on Yugoslavia and on workers' management. The latter are typically seen against an assumed background of objectives and institutions totally alien to them, little or no regard being paid to their specifically Yugoslav human institutional, and physical environment.

The central theme of the study is approached in Part II. The formal models of economic behaviour of the worker-managed enterprise are discussed in Chapters VI to IX, which give a brief account and evaluation of some of the major foreign and domestic models proposed by others in recent years and present the author's own conclusions for an alternative framework of interpretation of the behaviour of the Yugoslav firm.

Owing to the unexpected wealth of accumulated material, and in view of the pluralistic and multi-functional nature of the worker-managed enterprise, these five chapters alone represent the material originally contemplated for the whole study. Although they do not offer a full review of all possible models and do not adequately reflect any one of them, this—to the author's knowledge—first attempt at a comparative approach to the study of the economics of a producers' self-governing enterprise may be of some help to the growing number of these who, in Yugoslavia and elsewhere, devote their energies to paving the way to scientific understanding of an economic system based on democratic principles and respect for human values.

While the call for participation—at work and in all other areas of men's activity—the claim for workers' control and economic democracy, for justice and equal opportunity for all men and women is heard with ever increasing strength throughout the world, the economic consequences of the corresponding reforms or evolutionary changes together with the conditions of feasibility and efficiency of an economy based on the full participation of all, have so far remained largely unexplored. They are thus most likely

to constitute the weakest link and, often, the main stumbling block in any practical experiment. While based on one national system and a single experience, and thus by no means directly applicable elsewhere, our exercise in abstract model building can no doubt help others to understand the choices they are facing and to choose with due regard to their particular circumstances.

To construct abstract models is, however, an empty, meaningless exercise unless such models are shown to reflect the real world and prove of use in interpreting real observable phenomena. While the model proposed in Chapter IX is derived from study of the real behaviour of Yugoslav enterprises, in the following chapters an attempt is made to use it in interpreting the observed behaviour of Yugoslav firms in their actual operation. Particular attention is given to growth, capital assets and investment (Chapter X) and to amortization, interest and loan-financing (Chapter XI).

Equally thorough application of the model would need to be made in other areas of enterprise operation if a full understanding of the behaviour of the worker-managed firm were sought. This massive task could not be accomplished in a single volume, however, and only summary attention is given to some of these other areas in the final chapter, which summarizes the findings of the previous two chapters before considering questions of employment, business management and remuneration, and touching on a few further aspects. All these subjects are however covered extensively—albeit not systematically—in the main text of this volume.

The object of Chapters X, XI and XII is much wider, however, than building a mere verification of an abstract model. They aim at pointing out the main traits of behaviour shown so far by Yugoslav firms in these various areas of their activity, and at relating this behaviour to their various objectives and specific circumstances. A complex cause-effect analysis is thus attempted for the various functional areas of the worker-managed enterprise quite independently of any abstract model.

Part II covers the various areas commonly considered in formal economics, but the issues dealt with do not exhaust the full range of problems which are specific to the worker-managed enterprise and economy. Some of these wider problems (covered briefly in Chapter XII), which call for a further study in order to ensure orderly operation, are related to the internal characteristics of the worker-managed enterprise: problems of entry and exit of firms (i.e. setting up, amalgamation, liquidation, etc.), their co-operation and integration, as well as internal decentralization and work group autonomy; and problems of economic initiative and responsibility, professional management and the like. Others relate to more external considerations, such as to planning and economic policy, and particularly the fiscal, monetary and financial policy instruments which form an integral part of the worker-managed economy.

Part One

Workers' Management in Yugoslavia: An Overview

The behaviour of worker-managed enterprises cannot be examined in a purely abstract setting as is commonly done in modern economics when dealing with private capitalist enterprise: actually no economic system except capitalism in its purest form can be properly analysed as a purely rational abstraction.¹

In a system based on workers' management the real environmental factors (physical, institutional, psychological and sociological) are of paramount importance, for participation in the decision-making process postulates real physical presence and full-time participation in the production process. The decision makers and their environment are inseparably merged into a single whole. Moreover, in view of the requirements of modern technology, the worker-manager—unlike the self-employed craftsman or peasant—is typically associated with others in numerically important work collectivities. Hence, the actual shaping of the rules and procedures which define the collectivities' internal structure—the decision-making and income distribution process—is also essential for an understanding of the behaviour of enterprises or work collectivities.

A general survey of the most essential data which appear directly relevant to the system of workers' management as practised in Yugoslavia will be found in the first part of the study. They are grouped under five main headings: the Yugoslav setting; the aims and objectives of the system; the constitutional framework and economic policy; the worker-managed enterprise; and the enterprise planning and income distribution process. In the absence of any general study on modern Yugoslavia, this information, although not comprehensive, is designed to give a general background to the Yugoslav worker-managed enterprise.

¹ In all other systems, the peasant or monastic-religious economy, the mediaeval city corporation, the feudal or imperial bureaucratic order or the 'managerial corporation' within the New Industrial State of Galbraith, real men in real settings are in one way or another personally involved in the decision-making process. Consequently, their concrete situations and possibilities, their philosophy or ideology, their preferences and dislikes, necessarily affect the substance of their decisions, generally to a much greater extent than purely 'rational' considerations of profitability. In other words, only an absentee capitalist can be represented—at least for the purposes of economic manuals—as a faceless being, with any degree of plausibility.

CHAPTER I

The Yugoslav Setting: Geography, Population, Social and Economic Background

The interdependence of geography, social history and economic development is brought to light with particular clarity when considering the extreme regional differences within Yugoslavia. These are hardly less, and in many respects possibly stronger, than similar differences found elsewhere in considering a whole continent, such as, for instance, the whole of Latin America. Yet there are also powerful socio-political forces which make the country a meaningful whole, the very concept of self-management at all levels, including workers' management of enterprises, being one of the major unifying factors.

The largest single country of the Balkan peninsula, Yugoslavia's territory covers less than 100,000 square miles (255,000 km), an area comparable to that of Great Britain or Italy. Up to 60 per cent of this territory consists of relatively high mountainous areas (mostly over 3,000 feet) which, with the exception of the Alps in Slovenia, render communications exceptionally difficult. The 20 to 25 per cent of fertile lowland along major rivers also consists of several quite distinct geographical regions, none of which have direct access to the narrow coastal area on the Adriatic sea facing Italy.

The mountain areas are divided between forests and an arid stony sierra, both quite unsuitable for modern agriculture. Because of their size, they constitute Europe's second biggest reservoir of hydraulic energy (after Norway); they also contain some of Europe's major deposits of non-ferrous metals such as copper, zinc, lead, mercury and bauxite, as well as considerable but rather low quality reserves of coal and iron ore, both rather unimportant by world standards. Along with the more developed coastal area they also represent a vast but as yet largely untapped natural reserve for the development of European tourism and for intensive fruit and vegetable production. The fertile lowlands provided in the past—in conditions of very limited domestic consumption—the bulk of the then predominantly agricultural exports and, despite the small area they cover, can still produce well in excess of the rapidly growing demand of the non-agricultural section of the population.

The total population of the country reached the figure of 20 million early in 1968, as compared with 17.4 million in 1961 and 15.6 million in 1939, despite very heavy losses during the war period (1.7 million). The rate of

birth and of natural increase of the population remain among the highest in Europe although rapidly declining in recent years (19.5 and 10.8 per thousand in 1967 as compared with 28.6 and 17.7 in 1954, the latter being the highest recorded figures).

The composition of the population presents an extraordinary complexity, combining all kinds of overlapping historical, political, religious, linguistic and cultural criteria of ethnic identity. The Slav people, who settled most of the present Yugoslav territory after the fall of the Roman Empire, although forming a number of distinct State entities at various periods of their earlier history, never succeeded in unifying the country prior to 1918. This was mainly due to their very exposed position on the military boundaries separating Europe from the Eastern Byzantine and Turkish Ottoman Empires. The influence of the major neighbouring powers (Austria and Hungary in the north, Venice in the coastal regions, and the Ottoman Empire in the southern and eastern parts of the country) was dominant, particularly in the last three or four centuries. Their military enterprises and the constant resistance of the local population inhibited normal social and economic advancement during that period.

The one-time northern boundary of the Ottoman Empire still constitutes a major dividing line between the more developed—or 'westernized'—northern regions of Slovenia, Croatia and northern Serbia (Voivodina), and the peoples of the less developed southern and eastern parts of the country. This is somewhat paralleled by the religious division between the Eastern Orthodox populations and the Catholic influence in the north and west, an historic division which corresponds to the major distinction between the linguistically very close peoples of Serbia and Croatia, each accordingly using their own alphabet, the Cyrillic and Latin respectively. A particular mixture of population is found in the central mountainous areas of Bosnia and Herzegovina where Serbian and Croatian populations are intermingled with nearly as many Yugoslavs of Muslim origin, sometimes classified as ethnically indetermined. The decision is now pending to recognize these people, who speak Serbo-Croatian, as being of 'Muslim' nationality. There are numerous other peculiarities of religious background, still relevant for the present, which cannot be dealt with here. A noticeable feature, however, is the total absence of Protestant influence which may be seen, at least by those accepting Max Weber's theory of development, as a contributory cause of the striking deficiency of private entrepreneurial motivation among the Yugoslav populations throughout the last century and particularly during the inter-war period of national independence. The people of Montenegro derive their specific nationality from the uninterrupted tradition of independence of their mountain principality, while they do not differ significantly from the Serbian people in other regards. Thus, among the five Yugoslav peoples, the Serbo-Croatian linguistic group is numerically predominant (approximately 80 per cent of the population), while two of them possess their separate languages, the Slovenes in the extreme north-west, and the Macedonians in the south-east.

There are moreover some ten recognized minority ethnic groups, the two

Table 1

Social and Economic Characteristics of Yugoslav Peoples according to Principal Territorial Divisions

	<i>Republics and Autonomous Regions of Serbia¹</i>	<i>Bosnia and Herzegovina</i>	<i>Monte-negro</i>	<i>Croatia</i>	<i>Macedonia</i>	<i>Slovenia</i>	<i>Serbia Proper</i>	<i>Kosovo</i>	<i>Yugoslavia (total or average)</i>
1. Population 1967 (in thousands)	3,735	727	4,340	1,551	1,679	8,117	5,046	1,920	19,949
2. Rate of Births									
(a) 1950-4 average	38.2	32.1	23.2	38.4	22.8	27.4	26.1	23.3	28.8
(b) 1967	24.5	21.5	15.8	26.1	18.1	18.1	15.1	14.0	19.5
3. Death rate									
(a) 1950-4 average	13.9	10.0	11.7	14.5	10.9	12.4	11.3	12.4	12.4
(b) 1967	6.8	6.2	9.7	8.0	10.0	9.1	8.7	9.6	8.7
4. Illiteracy 1961 ²									
(a) Percentage of all population over the age of 10	32.5	21.7	12.1	24.5	1.8	21.9	23.0	10.6	19.7 ³
(b) Age group 20-34	24.7	10.3	5.01	16.5	0.8	13.7	12.4	6.5	13.0
5. National income (1966)									
(a) In 1,000 million dinars	11.1	1.5	24.0	4.8	13.5	36.8	24.3	10.7	91.8
(b) Per capita (in thousands)	3.0	2.1	5.5	3.1	8.1	4.5	4.8	5.6	4.8
6. Employed population 1967									
(a) in thousands	485	71	913	233	504	1,355	865	399	3,561 ⁴
(b) as percentage of total population	13	10	21	15	30	17	16	26	18
7. Average monthly personal incomes of those employed, in Dinars (1966)	677	675	748	620	849	717	720	727	730
8. Private saving deposits (December 1967)									
(a) in millions dinars	592	125	1,753	856	1,382	2,841	—	—	7,549
(b) as percentage of national income	5.3	8.3	7.3	17.8	10.2	7.7	—	—	8.2

¹ In the usual order of Yugoslav statistics (Serbo-Croatian in Latin alphabet).² Persons able to read but unable to write counted as illiterate.³ Compares with 1953 illiteracy rate of 25.4 per cent (14.1 for men and 35.8 women).⁴ Including those in private employment (99.4 thousands in 1967); apprentices excluded.