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Orthodoxy and solidarity: competing claims and international adjustment in Yugoslavia

Susan L. Woodward

Yugoslavia, like many newly industrializing countries (NICs), experienced a serious deterioration in its external trade account and sharp rises in domestic prices as a result of the changes in the world economy in the 1970s and 1980s. By the 1980s, low and then stagnant growth, high unemployment, and accelerating inflation plagued the Yugoslav economy. Throughout the period policy makers faced a conflict between the need to protect the country's balance of payments and their preference for an economic policy of high growth, full employment, and egalitarian distribution.

The ability of the Yugoslav government to adjust to the inflationary spiral of international trade in the 1970s and the sustained recession after 1980 as well as to contain the domestic conflict generated by stagflation was hampered, furthermore, by domestic political developments. These included the aftermath of a constitutional crisis over economic policy in 1967–72 and the growing incapacitation and then death in May 1980 of Marshal Tito, Yugoslavia's leader for the entire postwar period.

Given the change that characterized both international and domestic conditions in the 1970s and 1980s, what is striking about the Yugoslav policy response is its continuity with the past. This continuity can be seen in four elements. First, monetary policy continued to bear the dual burden of macroeconomic management in Yugoslavia—both to increase employment by stimulating economic growth and to curb inflation and reduce balance-of-payments deficits by restricting demand. The expansionary preferences of

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policy makers were frequently overriden by orthodox policies of deflation and devaluation as monetary authorities gave priority to reducing an external deficit. As it did before 1973, macroeconomic policy oscillated between contraction and expansion, depending on the external current account, and, as a result, intensified the domestic effects of world economic cycles.

Continuity was also apparent in the supplementary measures that the federal cabinet employed to adjust to external conditions and still pursue its developmental and socialist goals. As in the past, such policies included trade negotiations to ensure crucial imports and to redirect export markets from the advanced industrial countries in recession to member countries of the Council for Mutual Economic Assistance (CMEA) and the Third World, liberalized rules on foreign investment, temporary controls on prices and imports, and, above all, foreign borrowing. The government also tried to promote both exports and import substitution, to sponsor voluntary incomes policies to control both price and wage inflation without abandoning egalitarian principles, and to institute a system of contracting among firms to counter the differential effects of stagflation on firms, regions, and consumers with solidaristic redistribution and risk sharing.

Third, continuing a familiar pattern, policy makers reversed the orientation of the country's structural adjustment policies when international conditions changed in the 1980s. Beginning in 1980–81, the abrupt cutoff of loans from foreign commercial banks, the size of Yugoslavia's external debt, and stiff conditionality terms for International Monetary Fund (IMF) credits forced policy makers to abandon those policies of the 1970s which aimed to satisfy competing domestic as well as foreign economic and political demands. In response, authorities imposed a program of prolonged austerity to cut demand; rescheduled the debt; and initiated a policy to promote exports, international competitiveness, and economic liberalization and reform as the motor of domestic growth—in outline, at least, a return to their economic reform of the 1960s and its supporters.

The fourth and final element of this pattern of continuity is the extensive institutional change that accompanies foreign economic adjustment in Yugoslavia. To implement their policies of adjustment in the 1970s, authorities altered mechanisms of financial allocation, the organization of the banking system and of decision making on redistributive policy, rights of political representation in economic policy groups, voting rules, authoritative governmental institutions, and the scope both of central decision making in the economy and of the party's appointment power. When the adjustment policy was reversed in the 1980s, they began yet again to discuss constitutional reform.

The Yugoslav response to the external economy, compared to responses of other developing countries, reveals similarities with both the NICs and East European countries. Macroeconomic stabilization policy—and the instruments to effect it—resembled the policies of many NICs. The movement

for liberalization of structural adjustment policies in the 1980s also occurred in many open, market economies in Europe and the Third World. At the same time, the pattern of association between international conditions and movements to reform both institutions of economic decision making and mechanisms of growth was similar to that found in Eastern Europe—in the current period, Hungary, East Germany, and to a certain extent Poland and Bulgaria.

How can this Yugoslav response best be explained? Most analysts, following the current emphasis on structural or institutional factors to explain policy variation, point to domestic political characteristics. Some argue that the Yugoslav state—both government and ruling party—is too decentralized to act otherwise. That is, the central government is too weak to impose other policies, such as the centrally directed use of foreign resources in Colombia, South Korea, or Hungary, the countercyclical fiscal policies of Austria, or the austerity policies of Chile. Because political leaders have local and regional power bases, they argue, central economic policies reflect particular regional economic interests, and leaders can obstruct the implementation of policies they oppose. Others argue that the system of social ownership and of populist distributional goals encourages the government to intervene administratively in the economy and to offer enterprises aid in ways that prevent effective participation in the world economy and lead to domestic crises that require harsh measures. These are partial explanations at best, however, and they do not account for variation in the extent and nature of centralization and governmental economic activity in Yugoslavia during the postwar period. Nor do they explain why the Yugoslav state has these traits.

The explanation offered here of the Yugoslav response to the external economy is that the political order in Yugoslavia rests on *two* foundations, one international and the other domestic, that together constrain policy makers' choices of foreign economic policy. This dual foundation is the outcome of the strategy chosen in the formative period of 1943–49 to develop the economy as rapidly as possible in a way that would also secure the domestic position of the new leadership against both foreign and domestic challenges. The strategy had two components—a particular relation with the world economy and a particular relation between political authorities and the economy—that have structured the arena within which policies have evolved ever since. Hence the repetition of certain policy patterns over the postwar period.

This development strategy sought to achieve the dominant goals of the new ruling coalition—to create the material basis for a long-term solution to the national question (the short-term solution having been constituted in the choice of a federal system); to further its socialist goals, above all the rapid improvement of the standard of living of the working population; and to remove the vulnerabilities of Yugoslavia's international strategic position which Nazi economic policies and the war had made transparently clear. The fates of these goals—international and domestic, political and economic—

on which the party based its future authority were thereby conjoined and in turn made dependent on the outcome of the development strategy itself. Consequently, both world and domestic economic conditions are tightly linked, and domestic conflicts over policies toward the external economy are interwoven with conflicts over domestic development and socialist goals.

Three characteristics of the Yugoslav policy process shape the particular policies that result. First, the options within the foreign economic relations of the development strategy establish the lines along which conflict over economic policy and its resolution can occur. Second, the ruling party is a coalition of groups that disagree on these policy options and whose foreign economic interests conflict; at the same time, the political norm underlying social peace in Yugoslavia is that all such interests must be accommodated. Some compromise must be found. Third, because the lines along which policy-making and administrative bodies are organized do not coincide with the distribution of economic power and of foreign-trade interests, no single interest or political alliance consistently defines policy outcomes.

To accommodate conflicting interests and competing claims to economic resources, the party leadership has sought to avoid zero-sum conflicts and irreconcilable debates by repeatedly turning to foreign resources and to promises of economic growth through trade, on the one hand, and by granting financial autonomy to firms and subordinate governments at home, on the other. However, the first tactic reinforces the influence of trends in the world economy on domestic economic and political fortunes and the difficulty of separating domestic economic policies and political debates from policies of foreign adjustment. At the same time, both tactics limit the subsequent policies that can be employed to manage the consequences of international economic fluctuations. In effect, openness to the international economy—in particular, the form such openness takes in Yugoslavia—is as critical to the party's governing strategy as it is to the strategy for economic development. At the same time, such openness has conferred differential benefits on regions, localities, firms, and individuals, and has required frequent adjustments in the economic policy-making apparatus of the state. What begins as a remedy for some internal conflicts then becomes a source of others. Hence institutions and practices of political control also vary directly with the scope for maneuver which comes from outside.

This essay describes the policy responses of Yugoslav decision makers to changes in the world economy in the 1970s and 1980s and explains those policies in terms of Yugoslavia's strategy toward the world economy, the resulting pattern of domestic interests in foreign policy, and the role of the Yugoslav state in the economy, including the distribution of rights to participate in economic policy making among social groups. I shall first elaborate on these explanatory factors.

Yugoslavia in the world economy

The main goals of economic strategy in Yugoslavia over the last four decades have been (1) to develop the domestic economy as rapidly as possible, (2) to use open participation in the international economy to promote that development, and (3) to transform the country's foreign-trade profile into that of an advanced industrial economy and thus to reduce the foreign economic and political vulnerability of its prewar profile:[1] trading primary commodities for processed and capital goods, Yugoslavia had become ever more dependent on foreign capital and markets. The development strategy adopted as early as 1949 has always distinguished the Yugoslav party from others in Eastern Europe, although Poland, Hungary, and Romania each in their own way came to share Yugoslavia's interest in Western trade and aid, and to adopt some of the reforms that integration into the world market required.

A key element of the Yugoslav approach has been the use of external capital resources (with exceptions for foreign investment) to supplement domestic resources and accumulation. As President Tito once remarked, "the more aid, the faster socialism will grow in our country."[2] The approach also relies on active international diplomacy and relatively balanced relations with both superpowers to increase economic flexibility and to keep foreign economic and political powers from interfering in domestic affairs.[3]

Although this strategy has freed the postwar government from some of the constraints of economic underdevelopment, it limits policy makers in other ways. For example, the strategy places a high premium on the rational,

1. A good source for the original assumptions of the development strategy is Nikola Čobeljić, *Politika i Metodi Privrednog Razvoja Jugoslavije (1947–1956)* (Belgrade: Nolit, 1959).

2. J. B. Tito, *Govori i Članci*, vol. 6, p. 131, as cited in Duško Duisin, "The Impact of United States Assistance on Yugoslav Policy, 1949–1959" (Master's thesis, Columbia University, 1959).

3. R. F. Miller refers to this strategy as "maximum international exposure and involvement" in *External Factors in Yugoslav Political Development*, Occasional Paper No. 14 (Canberra: Australian National University, Department of Political Science, Research School of Social Sciences, 1977). The necessity of a reasoned international strategy if rulers were to be able to pursue domestic goals, particularly socialist ones, was a central question in debates among intellectuals on how to overcome the "ideology of smallness" (Krleža) and the fate of "non-historic nations" during the 1930s, in socialist debates on foreign trade in the 1890s, 1920s, and 1947–49, and in the lesson of Hitler's eastern policy. The general argument relating ruling strategies to external pressures in Eastern Europe has been made most persuasively by Perry Anderson in *Lineages of the Absolutist State* (London: Verso, 1974); note his distinction between the Central European and Byzantine-Balkan patterns, patterns that divide Yugoslavia through the center. Joseph Rothschild provides interwar parallels in *East Central Europe between the Two World Wars* (Seattle: University of Washington Press, 1974), pp. 200–280. Czechoslovakia attempted the Yugoslav strategy in 1947–48 and perhaps again in the 1960s. Romania, until Ceaușescu endeavored to emulate the Yugoslavs, and Bulgaria, which since 1980 has also hinted of change, followed instead a patron-client strategy, according to Kenneth Jowitt in his *The Leninist Response to National Dependency* (Berkeley: Institute of International Studies, University of California, 1978). The Albanian strategy, alternating patron-client relations with isolationist autarchy, is well known, as is the Hungarian exchange, necessary perhaps because of that country's size and insufficient resource base and experience of the Soviet invasion of 1956, which remains politically loyal to the Soviet Union in order to gain internal flexibility.

best use of foreign resources so that they may contribute simultaneously to development, a particular trade profile, the revenues from exports needed to pay for imports and loans, and political independence. Investment policies always combine export promotion and import substitution. Above all, policy makers must be particularly attentive to their balance of payments. Although they expect persistent deficits and foreign debt as an inevitable consequence of the early stages of development, they have been adamant against defaulting on foreign loans.[4] Moreover, pursuit of this strategy has required an entrepreneurial and skillful foreign-policy leadership, a strong territorial defense, and a vigilance about the political consequences of international agreements that make it difficult to separate debates on foreign economic policy from questions of political allegiance and national security.[5]

By the early 1970s the Yugoslav economy had become more trade-oriented than the economies of many NICs, if one judges by the proportion of its gross national product (GNP) involved in trade (between one-third and one-half of the total volume of trade) or by the directness with which international prices were transmitted to the domestic economy.[6] According to one authority, exports in 1972 generated direct and indirect employment for the equivalent of 14 percent of the resident active labor force and for 40 percent of workers in industrial employment in the socialist sector.[7] The economy is particularly dependent on imports for basic production and consumption needs, including food during years of bad harvest.[8] It is a major recipient of World Bank development assistance for domestic infrastructure. In sharp contrast, for example, to leaders in East Germany or Czechoslovakia, Yugoslav leaders have also maintained close credit relations with the IMF since 1949.

4. This stance is supported by most producers, because of the extensive dependence of production on imports and by the general public, because of a deep cultural predisposition toward reciprocity in exchange which requires the repayment of financial obligations on both moral and pragmatic grounds.

5. As a result, for example, purchases of military equipment are limited by a one-third rule: one-third each from NATO, the Soviet bloc, and domestic sources. Defense needs require production capacity that many have considered uneconomical, for example, the iron and steel capacity developed in the early 1950s.

6. It is these transmission mechanisms that make the Yugoslav economy particularly open, rather than the proportion of trade in social product alone (according to which, for example, Hungary is considered "more open" by Egon Neuberger and Laura D'Andrea Tyson, "The Transmission of International Economic Disturbances: An Overview," in Neuberger and Tyson, eds., *The Impact of International Economic Disturbances on the Soviet Union and Eastern Europe: Transmission and Response* [Elmsford, N.Y.: Pergamon Press, 1980], pp. 7–8).

7. Laura D'Andrea Tyson and Gabriel Eichler, "Continuity and Change in the Yugoslav Economy in the 1970's and 1980's," in Joint Economic Committee, *East European Economic Assessment*, pt. 1, *Country Studies* (Washington, D.C.: GPO, 1980), p. 175.

8. National Bank of Yugoslavia, *The Economic Scene in Yugoslavia, 1980–82* (Belgrade, April 1982); Organization for Economic Cooperation and Development (OECD), Annual Economic Surveys, *Yugoslavia* (Paris: OECD, yearly); see also Charles R. Chittle, *Industrialization and Manufactured Export Expansion in a Worker-Managed Economy: the Yugoslav Experience* (Tübingen: Mohr, 1979), chap. 5; Martin Schrenk et al., *Yugoslavia: Self-management Socialism, Challenges of Development* (Washington, D.C.: International Bank for Reconstruction and Development, 1979), pp. 176, 214–17; Tyson and Eichler, "Continuity and Change."

Despite intentions to reduce external vulnerability, the Yugoslav economy is extremely sensitive to conditions in the world economy. Oskar Kovač argues, for example, that the use of foreign finance in Yugoslavia has always been determined by supply.[9] Laura Tyson and Egon Neuberger have calculated that "a 1.0 percentage point decline in average growth rates in Western Europe produces a 1.0 to 1.6 percentage point decline in Yugoslav exports."[10] Economic policy makers gain some maneuverability from their nonalignment policy. When their preferred Western markets become protectionist, for example, they can shift exports eastward as an associate member of the CMEA. They maintain many bilateral clearing agreements of economic cooperation in the Third World.[11] Associate status with the Organization for Economic Cooperation and Development (OECD) and preferential trade agreements with the European Economic Community (EEC) give them access to Eurodollar markets. Yugoslavia receives long-term public credits from countries in competing blocs, such as Kuwait, West Germany, and the Soviet Union. And it has learned to expect emergency assistance from the United States and its allies because of Yugoslavia's military defense of the status quo in the Balkans.

It is far less easy for Yugoslavia to redirect import sources, however, given its reliance on Western credits and technology, and the orientation of much of its export industry toward processing and assembly. As a result, serious imbalances in the commodity composition and terms of trade among Yugoslavia's trading areas exacerbate problems in the balance of payments. The country's trade with OECD countries remains characteristic of that of a less developed country—it imports capital goods and intermediate materials in exchange for raw materials, agricultural products, and subcontracted processed goods (e.g., textiles)—whereas in its trade with CMEA and developing countries it exchanges manufactured goods for imports of fuels and other raw materials. In the 1970s, 75–89 percent of its deficit on both trade and capital accounts was with the OECD.[12]

In fact, earnings from merchandise exports have never been sufficient to cover imports, leaving the burden of often more than half the trade deficit to earnings on factor services—above all, remittances from workers temporarily working in northern Europe—but also to tourism and transport services. Not only has the trade account shown a deficit throughout the postwar period, the current account has also shown a deficit in all but six

9. Oskar Kovač, *Platnobilansna Politika Jugoslavije* (Belgrade: Institut Ekonomskih Nauka, 1973).

10. Cited in Laura D'Andrea Tyson, *The Yugoslav Economic System and Its Performance in the 1970s* (Berkeley: Institute of International Studies, University of California, 1980), p. 92n.

11. In 1971 Yugoslavia maintained such agreements with CMEA countries, Greece, Spain, Turkey, Israel, Algeria, Tunisia, Mali, Ghana, Guinea, Afghanistan, Cambodia, India, Egypt, Cuba, and Brazil.

12. Tyson, *The Yugoslav Economic System*, p. 87.

of the last thirty-seven years.[13] Borrowing to supplement foreign reserves and to finance imports and development projects brought Yugoslavia's total debt to $2.195 billion by the end of the 1960s, nearly half of which had come due by 1972 on the eve of the oil-price rise.[14] On the eve of the world debt crisis, in December 1981, its foreign debt had reached $19.2 billion.[15]

Domestic interests and alliances in relation to foreign economic policy

No economic policy is neutral in its effects on social groups, of course, but Yugoslavia's choice of foreign strategy for development purposes had the effect of creating natural alliances around foreign economic policy which did not conform to the alliances of political organization in Yugoslavia after World War II. For historical reasons as well, political disputes over foreign economic policy always arouse strong emotions.

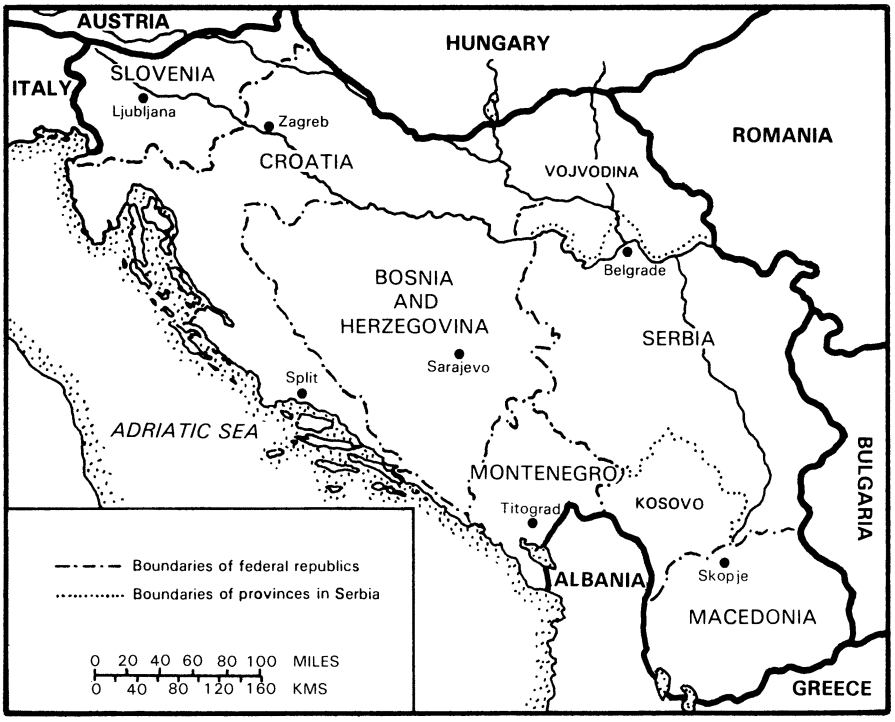
This "setting," given political meaning by economic policy, has three elements. The first is the ancient distinction in the Balkans between what might be termed inward- and outward-oriented regions. People situated in river valleys, on borderland plains, and on the seacoast have participated in international trade for centuries, whereas the hinterlands remained mountainous retreats for refugees, bandits, and transhumant herders.[16] The second element arises from the overlay of developmental disparities and productive specialization along territorial lines as a result of partitioning by competing empires. Thus, outward-oriented regions in the more developed northwest and less advanced southeast may disagree on development policy while sharing an interest in commercial and export policy that can ally them against those areas long exploited for mineral wealth or those restricted to self-sufficiency as a military border between empires. Because the theater of World War II was located predominantly in the poor interior, and because policy makers in the defense-conscious 1947–53 period located capital in-

13. The current account ran a surplus only in 1954, 1956, 1965, 1972, 1973, 1976. According to the OECD, Yugoslav export market shares have been declining since the early 1960s. The deterioration in its trade account began in the mid-1960s, but this had been masked by growing net invisible earnings which then began to decline with the impact of the oil-price rises on world transportation and on the West European economy. See OECD, *Yugoslavia.*

14. Michèle Ledić provides data on the Yugoslav debt in "Debt Analysis and Debt-Related Issues: the Case of Yugoslavia," *Economic Analysis and Workers' Management* 18, no. 1 (1984), pp. 35–64.

15. National Bank of Yugoslavia, *The Economic Scene.*

16. This distinction even shows up in voting patterns in the interwar period. See Lenard Cohen and Paul Warwick, *Political Cohesion in a Fragile Mosaic: The Yugoslav Experience* (Boulder: Westview, 1983), pp. 27–50. Useful sources on regional economic patterns are John R. Lampe and Marvin R. Jackson, *Balkan Economic History, 1550–1950: From Imperial Borderlands to Developing Nations* (Bloomington: Indiana University Press, 1982), and F. E. Ian Hamilton, *Yugoslavia: Patterns of Economic Activity* (New York: Praeger, 1968).



The Socialist Federal Republic of Yugoslavia

dustries in the hinterland (e.g., Bosnia, parts of Croatia and Serbia) and away from unprotected borders (e.g., the plains of Vojvodina and Macedonia), the pattern continued to be reproduced under the new regime (see map).

But inclinations are not etched in the land forever; infrastructural and industrial investments may remove these regionally inherited limits. Thus, the third element of this setting arises from the nature of current foreign-trade and developmental policies: whether they are complementary or, instead, reinforce past disparities and orientations.

These policies depend on the political organization of economic interests and on who makes policy. Political power resides with the Yugoslav Communist party (called the League of Communists, or LCY). The party sets the political agenda and initiates policy discussions, controls the boundaries of legitimate political expression and organization, and approves appointments to all authoritative positions in society—candidates for parliamentary seats, members of the cabinet, Federal Councils, the state Presidency, and federal administration, and directors of economic and social organizations. The party is a coalition of different orientations on both foreign-trade and development policy, however. It drew much of its early following from areas directly

affected by foreign-trade crises, whereas during wartime its members came largely from the interior where Partisan army units were concentrated. Major purges of the party (after the Cominform dispute of 1948 and the Ranković resignation of 1966) disproportionately reduced the latter contingent, but membership campaigns in times of political and economic crisis have restored it. And as Yugoslavia's single party, the LCY claims to represent all progressive interests.

Both the party and the government are federal organizations.[17] Yet the republics and provinces (the latter are two autonomous regions—Kosovo and Vojvodina—within the republic of Serbia) are also heterogeneous coalitions of economic interests, although Slovenia and, perhaps, Kosovo, may be considered exceptions. Although the party has organizations in workplaces with interests in economic policy (e.g., enterprises, research institutes), and although central authorities prior to 1950 maintained direct administrative links with enterprises and local administrators through a system similar to the tutorial system practiced in Eastern Europe, political struggles have been resolved over time in favor of territorially organized hierarchies and the administrative authority of governments at the republic level.[18] Economic coalitions that cross republican lines cannot be institutionalized politically, moveover, because their formation would encounter the prohibition against organized factions in this (still in principle at least) Leninist party.

If there is any pattern at all, then, politically conservative politicians tend to come from interior, poorer regions that are more protectionist and must rely on political instruments to compensate for poorer economic resources.[19] Economic liberals, on the other hand, are based in outward-oriented areas (especially cities) and particularly in technologically advanced firms and export sectors that, while not entirely absent in the south, tend to concentrate in the wealthier northern regions. This correspondence does not always hold, however, and neither political liberals nor economic radicals are so easy to place.

In Eastern Europe both foreign interference in domestic affairs and the

17. The creation and evolution of the Yugoslav federal system up to the 1970s are exhaustively discussed by Frits W. Hondius, *The Yugoslav Community of Nations* (The Hague: Mouton, 1968). According to the pact of 1943 (the AVNOJ declaration—the Anti-Fascist National Liberation Council of Yugoslavia, the provisional wartime Partisan government), the postwar Yugoslav government was established as a "voluntary union of separate peoples" along historically defined cultural-political regions.

18. The many stages of this evolution have made bedfellows of people from both sides of a policy fence, often with unintended consequences. See Hondius, *The Yugoslav Community*, and April Carter, *Democratic Reform in Yugoslavia: The Changing Role of the Party* (Princeton: Princeton University Press, 1982).

19. By *conservative* I intend the English meaning based on power—establishment and privilege—rather than the French meaning based on class—from right to left—because Yugoslav political conservatives are loyalists to party and the structural status quo. Political labels are not always helpful, however, for the party is Communist, ostensibly representing labor and the left, and its economic views tend to vary with context, constituency, and issue.

recourse to foreign resources and alliances by competing domestic political factions are time-honored traditions. In Yugoslavia these issues also arouse strong emotions because the central government must gain and hold the allegiance of separate peoples and numerous national minorities within one political community. Economic policies that emphasize foreign or domestic markets can raise doubts about the ability of a group or region to prosper and feed into long-standing uncertainties about cultural and political loyalties and about a people's reasons for membership in a Yugoslav state. Regional leaders, who represent the federal units and participate in policy making because of the devolution of financial and administrative authority to the republican governments, always view foreign economic policy from a dual perspective—their economic position relative to other regions and relative to international competition. In addition, the many-sided struggle among groups and individuals over foreign economic policy within a single-party system means that policy alliances are not only informal but also unstable and that policy choices always represent a compromise among objectives rather than a coherent platform favoring one economic program.

Interaction among foreign trade and developmental strategy, economic and political regional legacies toward the international economy, and the structure of political organization thus create numerous conflicts within the political leadership. For example, attempts to implement an export-oriented policy pit representatives of commercial power and of export producers against Partisan veterans and representatives of the poorer interior.[20] If foreign economic policies appear to conflict with policies for domestic development, as in deflationary policies or cuts in funds for redistribution, then political leaders from more developed northern regions are likely to confront leaders from less developed regions in the south. But the economic heterogeneity of most regions means that the interests of liberals are not (as some argue) identical with those of political leaders from wealthier regions, as the current stance of Croatian leaders illustrates (see below). Frequent divisions also occur within regional leaderships over exchange-rate, price, tax, and agricultural policies, and over balance-of-payments adjustment policies that demand contraction of investment priorities for foreign-trade purposes, and

20. The parliamentary elections of 1967, which took place in the midst of the economic reforms of the 1960s, are illustrative. Liberal reformers anxious to remove veterans from positions of power to make way both for the younger generation and for individuals more sympathetic to their economic policies pointed to a number of contests in Serbia, where Partisan generals unseated the official candidates, as evidence of Rankovićite (i.e., secret police, centralist, anti-reform) opposition. In one of these contests, the official candidate was the federal secretary for trade. The general who won campaigned by disparaging his opponent's war record and his policy of allowing the import of cheap apples to the detriment of local fruit growers, and by promising locals he would win their struggle for a railway line. Carter, *Democratic Reform*, p. 147.

that affect current regional specializations and inequalities.[21] Moreover, the liberal coalition divides sharply when popular dissent protests the unemployment and inequality that the foreign economic policies of liberal reforms engender. However, the most ferocious battles are fought over the central distribution of foreign developmental assistance for infrastructure and over the system that allocates foreign exchange, because of the simultaneous developmental and foreign-trade implications of transportation networks and the pervasive import dependence.

The economic role of the Yugoslav state

In the course of settling upon its international strategy, the party leadership also made a number of decisions regarding the structure of the Yugoslav economy and the relation between political authorities and economic actors. These decisions severely limited both the capacity of the central government to influence economic activity and the forms that influence could take. For example, it was decided that the predominant instrument of domestic accumulation would be autonomous producers operating on a market rather than central planning. Social control of the economy would be secured by labor-managed firms and by restrictions on capital ownership, capital markets, and other forms of economic power independent of social-sector control (either producers or governments). Administrative authority over the economy, both to implement central decisions and to stimulate structural economic change, was delegated to republican and local governments in order to allow flexibility in the face of different conditions and to retain the allegiance of regional authorities by reducing central power. Finally, the state abandoned its control over foreign trade to autonomous enterprises, its role now reduced to regulating an essentially liberal trade regime.

As a result, the economic system in theory resembles the model of Ricardian and Owenite socialists in which labor-managed cooperatives are the basic units of production and consumption, the rights to allocate surplus belong to those who create it, and growth is facilitated by exchange and by international specialization.[22] The role of the government in this Yugoslav model

21. Unemployment currently ranges from under 2% in Slovenia to 21% in Macedonia and 30% in Kosovo, and policy makers are familiar with evidence from earlier recessions (such as that which followed the economic reforms of the mid-1960s), namely, that the structural effects of contraction are far deeper and have more long-term consequences in the poorer regions than in the northwest. For an analysis of this effect see Pavle Sicherl, *A Dynamic Analysis of Regional Disparities in Yugoslavia*, Income Distribution and Employment Programme, working paper 84 (Geneva: ILO, 1980).

22. Given the domestic coalition that formed the Yugoslav Communist party, the neopopulist aspects of this strategy are not surprising. A particularly clear statement of neopopulist assumptions and the East European branch of that movement can be found in Gavin Kitching, *Development and Underdevelopment in Historical Perspective: Populism, Nationalism, and Industrialization* (London: Methuen, 1982), pp. 19–61.

is confined to sponsoring social agreements among producers to redistribute financial resources, both to protect the values of social "solidarity" (e.g., the right to a living, equal reward for equal labor input, and assistance from those temporarily advantaged by the market to those whose survival is threatened) and to ensure stable conditions of accumulation. The antistatist legacy that the Yugoslav political economic system shares with classical liberalism is apparent in the institutional assumptions of the system's main architect, Edvard Kardelj, who expected a "pluralism of self-managing interests"—the individual pursuit of self-interest by socialist persons in socially owned units, together with institutions to prevent concentrations of political or economic power—to lead to social well-being through the market and worker cooperation.

The Yugoslav government performs its economic functions in essentially five ways: it may offer firms material incentives (tax relief, subsidies, cheap credit) to invest in certain activities or in other firms; it may raise monies through bond sales or taxation to finance specific public goods; it may regulate monetary and credit conditions; it may deposit revenues in interest-bearing accounts of banks which, in turn, are loaned to enterprises for capital investment or to localities for public services, and it may use taxation to create social funds to equalize individual incomes or governmental budgets. Each governmental level is financially autonomous, preferably self-sufficient, and in all cases required to balance its budget quarterly. Fiscal policy is used primarily to balance budgets; monetary and credit policy is the main tool to influence the behavior of firms.[23]

The tensions in this system are predictable. Enterprises fight to retain as much of their revenue as possible and to prevent governmental interference in their activities, while governments increase taxation to cover expenditures and seek to reach collective goals without violating enterprise self-management. To manage this conflict, rights to participate in distributive decisions have been granted to those who provide resources, a kind of "no taxation without representation" principle weighted according to contribution. For

23. A number of Yugoslav economists argue that not only are governmental actions countercyclical but, worse, they exacerbate recessions: the constitutional requirement that budgets balance and the restrictions on capital markets mean governments and enterprises compete for the same funds; in a recession, governments increase taxes, and rather than reduce employment, labor-managed firms under strict rules against firing workers cover costs by raising prices. To counter the inflation, the National Bank tightens money and imposes a number of constraints to increase "financial discipline." Such measures only deepen the recession and the downward spiral until the level of enterprise indebtedness forces the government to seek credit from the National Bank in order to pay its bills. This increase in the money supply then fuels expansion, including imports, and the balance-of-payments deficit, which usually induced the recession in the first place through the monetarist policy response, re-creates the cycle. For a clear discussion, see Branko Horvat, *The Yugoslav Economic System: The First Labor-Managed Economy in the Making* (White Plains, N.Y.: International Arts and Sciences Press, 1976), pp. 206–51. For critiques of the ineffective system of public finance and the contradictory roles of monetary policy, see various years of OECD, *Yugoslavia.*

example, enterprises send delegates to local assemblies that deliberate on the provision of social services financed by enterprise funds; commercial bank credit policy is determined by assemblies of shareholders (i.e., large enterprises and governments); and the Federal Fund to Finance More Rapid Development in the Less Developed Republics and Autonomous Provinces (the Federal Fund) and the National Bank are both managed by representatives from each republican and provincial government.

Where the conflict is not between enterprises and governments but among producers themselves, as in the persistent conflicts over access to foreign exchange, there has been no stable resolution, only a constant process of pressuring the government to define and enforce "rights." In the case central to this essay, for example, three alternatives for distributing foreign exchange and therefore "import rights" recur: (1) a foreign-exchange market, preferred by final exporters,[24] wealthier firms, and parties whose claim on social resources is small (individuals, research institutes); (2) bilateral contracting to negotiate the exchange of goods or services for hard currency, preferred by producers of raw materials and intermediate goods, by firms that sell only on the domestic market, and generally by firms with fewer assets; and (3) governmental redistribution at the federal or regional level, often preferred by regional leaders pressured by firms to solve problems that result from the scarcity of foreign exchange. Perhaps because such conflicts are frequently irreconcilable, the tendency over time has been to try to remove the government (particularly the federal government) from the deliberative and redistributive processes altogether, confining its role to maintaining the conditions necessary to either a contracting or a market system, that is, reverting to the classical "liberal" principles of the government's economic role in the Yugoslav socialist model.

The formal institutions of economic policy making also aim to prevent the concentration of political power or the institutionalized advantage of one political interest within the party against another. Decisions are made in collective councils by people who are chosen to ensure representation of political "virtue" (the party), personal prominence (including experts), organized social and economic interests (producer groups, social institutions, governments), and nationality (usually the federal units), and who accept collective responsibility for the outcome.[25] All appointive positions in the government must "take into account" a person's national identity, aiming for proportional representation. All persons in authority, except the secretary

24. In 1983 more than 3,000 basic organizations of associated labor (BOALs) were engaged in exporting, but 110 held 72% of the trade.

25. Four councils govern at the federal level: the presidencies of both party and state, with representatives of each republic and province and of the federal government as co-equal powers, and a rotating chair; the cabinet, elected by the Parliament, which joins department heads with representatives of the republics and provinces; and a privy council (Council of the Federation) of notables. Government departments are managed by councils of civil servants, experts, and representatives of organized interests, and chaired by the cabinet secretary.

for defense, must rotate to another function after a maximum of two terms.[26] At the same time, however, the executive branch dominates all economic policy making, and the principles of rotation and the party's appointive power have resulted in a circulation of elites among these executive positions.

Unlike East European countries where Leninist parties also rule and where administrative reforms have tended to reinforce the links between central ministries and firms and to reduce the economic power of local and regional authorities, in Yugoslavia territorial units of party and government coordinate all organized interests horizontally, and formal lines of administrative authority between the central bureaucracy and local governments and enterprises have been eliminated.[27] Because party cadre policy is (as of 1969) under republican jurisdiction, people who represented organized interests and made policy in the 1970s and 1980s were always regional delegates as well. Federal economic policy, in other words, is made by political leaders who are simultaneously responsible for the economic activity of firms, the budgetary resources of the regional or local governments they represent, the living standards of their constituents, and public order in their territory. In addition, the doctrine of voluntary consent to decisions among political equals, which is built into the foundations of the political order—federalism, self-management, socialism, and democratic centralism—makes policy making into a process of achieving agreement among strategic groups, that is, the party leadership, sources of finance, and administrators, particularly in enterprises and local and regional governments. The convention in all such consultations, and, by the mid-1970s, the constitutional rule in Parliament (the Federal Assembly), is that decisions be made unanimously.

To obtain agreement, the cabinet (the Federal Executive Council, or FEC)

26. The rotation principle has had a complicated and tortuous history, beginning with its introduction in the 1963 Constitution and continuing to the Tito Initiative of 1978–79, which required yearly rotation of the chair of the party Presidency. To follow some of the many changes, see Steven L. Burg, *Conflict and Cohesion in Socialist Yugoslavia: Political Decision Making since 1966* (Princeton: Princeton University Press, 1983). For a wealth of information on governmental institutions and their many alterations, see Burg and Hondius, *The Yugoslav Community.*

27. This process took two decades and may be assuming yet a third arrangement. The strength of territorial powers originates in the military organization and wartime political strategy of the party, as in China. Vertical integration does occur functionally but usually when individual firms expand to create their own inputs or create new product lines with the waste products of their main line—hence one of the reasons for industrial oligopolies according to Stephen Sacks (personal communication, 1985) and a contributing factor to the power of some enterprises. In many ways, the system is much more like the small, open, social democracies of Western Europe with which Yugoslavia shares a system of corporate pluralism and simultaneous goals of free trade and social welfare; however, Yugoslavia is a developing country, on the periphery of West European trade alliances, and does not choose among economic policies according to a multiparty, numerical democracy. The comparison with Norway, according to Stein Rokkan's description of this conflict between corporate and numerical pluralism and its national-international linkages, is illuminating; see his "Norway: Numerical Democracy and Corporate Pluralism," in Robert Dahl, ed., *Political Oppositions in Western Democracies* (New Haven: Yale University Press, 1966), pp. 70–115.

follows a two-step procedure. First, to "harmonize the positions of interested parties," as the process of executive-initiated, corporatist negotiation is conceived, the FEC consults and bargains with central and regional party leaders, executive councils of regional governments, and economic authorities, such as the governors of the National Bank, the Federal Chamber of the Economy (an association of representatives from enterprises), and the trade union. This may be informal—between the FEC and regional governments, for example—or formal, in expanded sessions of the FEC, in its coordinating commissions, in the offices of the federal administration, and in the federal councils.[28] Experts in research institutes may be asked for opinions or for studies demonstrating the viability of a particular measure, and party leaders will organize discussions among members and at public gatherings to inform, invite suggestions on drafted legislation, and mobilize support. The second step is to obtain approval from elected assemblies of political and governmental representatives: the Socialist Alliance,[29] the party's Central Committee, and the bicameral federal Parliament—in which local and republic interests are represented.

The result of this system has been to link economic and political power, disperse it among a multitude of actors, and create a competition among powers to specify the rights and agents of "society." Over time, political conflicts have been resolved by further liberalizing the role of government in the economy, thereby making it more difficult for the government to realize its responsibility for solidarity, be it obligations to guarantee bank credits (domestic or foreign), reduce unemployment and inequality, find ways to share the responsibility for economic losses, or prevent bankruptcies. In other words, although the federal government's economic powers are analogous to those of a liberal state, its responsibilities are distinctly socialist. The paradoxical result is a central government that is committed to a passive policy stance but continues to play a significant economic role. It assumes responsibility for maintaining foreign solvency, guaranteeing foreign loan payments, engineering institutional reforms in the face of changing economic conditions, and setting priorities to guide microeconomic investment decisions.

Despite continuous negotiation over social plans and annual economic resolutions, most central policies are short term, ad hoc, and temporary interventions to correct what are viewed as aberrations in an otherwise normal market. Even when policy makers agree that a problem is structural and requires long-term policy rather than palliatives, they are limited by their lack of control over investment and of a central mechanism to command or to predict the outcome of an economic policy or to internalize externalities.

28. For the details on the process, see Burg, *Conflict and Cohesion.*

29. The Socialist Alliance of Working People of Yugoslavia, the former Popular Front mass organization, now organizes elections, political debate, and similar mass political activities.

Temporary controls accompany orthodox macroeconomic policies, and many of the socialist responsibilities are transferred to local and regional governments.

The formal structure of the Yugoslav state leads many to argue that real power lies with regional leaderships and that economic policy is a product of their mutual bargaining. But because no single region is dominant and because policy alliances are unstable, the leverage of those who guard the bases of the party's (and thus leaders') power is actually increased. By preserving the LCY's international reputation and its rules of domestic exclusion, the central leaders can distinguish clearly between decisions over which they have absolute prerogative and those they are willing to leave to local self-sufficiency or interregional bargaining. In this way they have attempted to resolve the conflict between the need for action on some matters and the many incompatible interests that must be accommodated.

This division of labor leaves up to the federal leadership decisions on international agreements and their terms, and the policies necessary to maintain balance-of-payments equilibrium and monetary stability. Monetary policy is made by the governors of the National Bank, customs policy by the secretary of foreign trade, price policy by the director of the Federal Price Office; budgetary decisions and international financial negotiations are primarily the responsibility of the secretary of finance, and so forth. The prime minister or vice-president for economic affairs of the FEC takes these to the Federal Chamber for ratification.[30]

Meanwhile, the party leadership watches both international and domestic events with an eye to their effect on national autonomy and to potentially destabilizing political behavior. Because the leadership reflects the coalition of interests and political approaches within the party, however, leaders will not be likely to agree unless confronted with a clear threat to the preconditions of their own power. Only then would they interfere with the normal course of economic decision making by changing policy direction or deciding that action on a particular problem is necessary. Such consensus can be reached under the compulsion of external necessity, for example, the threat by foreign lenders to discontinue credit unless certain conditions are met. Domestically, heads of the international security forces (the army or police) might argue persuasively that popular demonstrations against economic policies have begun to overreach their ability to maintain order; or a majority in the leadership may decide that interregional factionalism threatens the foundations of their collective rule.

In the past, President Tito's willingness to assert his charismatic authority (the personal loyalty of other top leaders), backed by his threat of a purge,

30. For example, although the Federal Chamber is composed of delegates from local communities, according to Burg, *Conflict and Cohesion*, they tend to consult the finance secretary of their republic for advice on legislation before them.

facilitated the resolution of policy in such cases. By dividing the ruling group into loyal and heretic, and even making a progress among local cadres for support, he could isolate potential opponents, force their resignation into private life, and prevent the formation of alliances against him and whatever policy he had chosen to support. Because Tito also used this authority to maintain his own position, challenging anyone who appeared to him disloyal or arrogant to obey or resign, he could influence the balance of political power on economic policy. However, this resource, to which leader and citizen alike tried to appeal, reinforced his power because he used it sparingly.

When economic policy requires domestic resources or implementation, the FEC will turn instead to the process of domestic bargaining and consultation, often playing only the role of broker among regional governments or producer groups. If export revenues must be raised, for example, the FEC will consult the Committee on Foreign Economic Relations of the Federal Chamber of the Economy (the seat of exporters and foreign-trade firms) to work out acceptable incentives. If price guidelines are not being followed, it will mobilize party and trade union cadre. Where social or economic policy requires a distribution of burdens or funds among regions—for example, regional responsibility for balance-of-payments adjustment and austerity cuts—the FEC negotiates with regional governments and their parliamentary delegations.

The policies chosen in such cases always reflect two factors: (1) the positions of those who hold the balance of economic power in the situation, and (2) the necessity of formulating a compromise that compensates the losers. The first occurs because the power, wealth, and reputation of leaders, as well as their ability to fulfill administrative responsibilities, depend above all on the economic resources of local enterprises, banks, and budgets. Whether interested in their own position or in the welfare of their constituents, regional representatives must lobby for policy outcomes that favor the wealth and wealth-making capacity of firms in their region and against policy outcomes that could harm their region's economy.[31] The advantage in this bargaining is held understandably by those from regions with the economic capacity to ride out policies that may not be in their interest or even to make a threat to secede plausible.[32] Advice from economists from wealthier regions and with Western contacts tends to have the most persuasive force. Furthermore, both market pressures and socialist goals have led to concentrated economic power, particularly in industrial conglomerates and foreign-trade enterprises. As a result, the incorporation into policy bargaining of associations repre-

31. This lobbying does not necessarily mean strengthening regionally based economies or promoting nationalistic or sectionalistic policies, as some claim.

32. Slovenia has used this threat several times—during the dispute over the allocation of World Bank funds for highway construction, the so-called road crisis in the 1960s, and the debate on foreign-exchange controls in the 1980s—and Croatia used it as a weapon during the late 1960s.

senting producer groups in which such firms dominate gives a distinct legislative advantage to those with greatest market power and those whose contribution to accumulation and to exports is greatest.[33] In contrast, regions in need of budgetary supplements from federal funds or with fewer alternative investment resources have less influence on rules specifying principles of distribution and must argue more for compensatory funds. Because economic actors in search of policies or administrative exceptions in their favor also focus their efforts where they are likely to have the most influence, this balance is cumulative. For example, the directors of industrial conglomerates call Belgrade officials frequently, but poorer firms must often resort instead to local influence.

Compromise is necessary, on the other hand, because it is also in the interest of all political leaders to resolve their conflicts, even if only temporarily, so as to preserve political stability and the party's authority. Furthermore, because the distribution of political power does not, except perhaps in the case of Slovenia, correspond to the distribution of economic power and economic policy interests, no regional representative stands in just one policy camp. That the instruments of the state are primarily financial magnifies the value of economic growth and of external sources of capital—in both cases permitting change in distributional proportions independent of political agreement and accommodating both regions whose own resources are insufficient to execute a policy and regions whose tax base and administrative control would be reduced by redistribution.[34]

Pressures to agree, the resulting vagueness of legislation, conflicts between market signals and the values of solidarity and socialist principles, the numerous obligations of territorial leaders, and so forth, all make implementation of policy difficult. The judiciary is federalized and, like civil law courts, depends on clear agreement in the government and party for its rulings. Administration of economic policy is decentralized, the responsibility of the republic and commune in which sympathies are likely to be closer to those being governed. There are few effective sanctions against noncompliant economic behavior because of the rights of self-management and the range of conditions under which solidarity is considered appropriate. Underlying all economic policy making, therefore, is a conflict over the proper methods of

33. On the very high industrial concentration of the economy, see Stephen R. Sacks, *Entry of New Competitors in Yugoslav Market Socialism* (Berkeley: Institute of International Studies, University of California, 1973). Legislation was enacted between 1967 and 1974 to break up large enterprises and industrial conglomerates into smaller, autonomous divisions (BOALs) and to regulate their interactions by negotiated transfer prices and internal banks. On this divisionalization, see the important study by Stephen R. Sacks, *Self-Management and Efficiency: Large Corporations in Yugoslavia* (London: Allen & Unwin, 1983), where he also suggests parallels with Japanese *zaibatsu* and some large American firms (e.g., General Motors).

34. The negotiations over aid to Montenegro after the April 1979 earthquake illustrate the tradeoffs and bargaining, including promises that foreign credits be secured in exchange for lower domestic transfers, between regions and the FEC. See Burg, *Conflict and Cohesion*, pp. 294–95.

enforcement—both who the enforcers should be and what the criteria of enforcement should be.

Thus, for example, market- and export-oriented reforms are accompanied by changes in banking and labor legislation in order to strengthen instruments of financial discipline and by changes in appointment policies in order to restrain the influence of both party and governmental personnel on economic decisions. Rising levels of unemployment, production bottlenecks, capital shortage, high inflation, or overall recession may lead to short-term interventions by authorities, some of which may be contradictory; for example, central policy makers may try to recentralize in order to coordinate difficulties and resolve external problems at the same time that regional and local politicians seek greater authority over their own turf.

Whatever the enforcement institutions of the moment, the burden of policy implementation ultimately falls on party leaders whose interest in maintaining political order and its underlying structure of political power means ensuring that governmental policies are obeyed. Conflicts over policy can thus extend to the role of the party itself and challenge its claim to speak for the community as a whole: some use the occasion to challenge the legitimacy of its authority over economic policy, others to debate the proper methods of its governance. Whereas some think the party should be the guardian of social justice and a counterbalance to economic power, others believe it should refrain from making operational decisions and guarantee only procedures for equal rights and political participation. At the same time, in its necessarily ad hoc role as troubleshooter, the party's actions can be easily seen as "interference" when not desired, but as "aid and duty" when they are.[35] Nor has the Kardeljian system ever been completely accepted. There remains an underlying tension, inside the party and outside it, between its supporters and those who believe in the rule of *čvrsta ruka* (a firm hand).

The ability of the central leadership to command the loyalty of its members, including the heads of the instruments of coercion—the army, the public prosecutor's office, and the police—is indeed crucial, because this makes it possible to enforce its control over the boundaries of legitimate political expression and organization. Although the *nomenklatura* system is less developed and formal than in other East European countries, the party's appointment power and threat of a personnel purge, however distant, are its ultimate weapons. With these it can create uncertainty for individuals who seek power and position within society and thus control their actions through anticipatory behavior. Short of this, party leaders frequently resort to Leninist tactics: campaigns to mobilize cadre, to persuade the population of the ne-

35. For an industrial example, see Ellen Comisso, *Workers' Control under Plan and Market: Implications of Yugoslav Self-Management* (New Haven: Yale University Press, 1979); for an example in the schools, see Susan L. Woodward, "Training for Self-Management: Patterns of Authority and Participation in Yugoslav Secondary Schools" (Ph.D. diss., Princeton University, 1974).

cessity for sacrifice and unity to achieve some objective, and to signal the end of debate and the start of implementation.[36]

In sum, what are the basic characteristics of the Yugoslav political economy which shape policy makers' responses to changes in the external economic environment? First, foreign capital resources have been crucial to Yugoslavia's strategy for achieving domestic economic growth and structural change and to the ability of the ruling LCY to accommodate domestic conflicts. Second, domestic financial resources belong to producers operating autonomously in an internationally open, regulated market economy. The extent to which those resources can be mobilized for social needs depends on both the productivity of the firm and the ability of government and party representatives to secure enterprise agreement to policies of redistribution. Third, the League's constituency includes both wealthy and poor firms; developed and underdeveloped regions; export-oriented and domestic market producers; economic liberals who favor using the instruments of the market, minimal government, and openness; and economic socialists and often political conservatives persuaded of the need for social or governmental institutions to address policies directly to redistributive equity, unemployment, and underdevelopment. Fourth, policy choices reflect shifting coalitions of authoritative individuals, because no formal alliances are possible within the party and because the formal lines of decision making and administrative authority in the government do not coincide with stable positions on foreign economic policy. At the same time, once a policy is decided, the League does not permit any organized challenge, whereas there are many ways, and indeed pressures, to evade implementation.

The LCY aims to accommodate the many members of its coalition within an economic system that puts their economic interests in conflict. Toward this end it has sought primarily to increase the financial resources necessary to economic activity and social goals, and to prevent the dominance, even temporary, of one group over another. As a result, economic policy making is bound by two constraints: (1) an externally controlled budget constraint—the balance of payments, the hardness of which has depended mainly on the availability and terms of foreign financing; and (2) an internal political constraint—namely, commitment to the principles of self-management, or the autonomy of firms, which includes voluntary investment and wage and price decisions, and successive devolution and limitation of governmental authority over the economy.

36. It is often said that the party suffers from the same consequences of federalization as do other institutions in Yugoslavia, that as a result there is no such thing as a single League of Communists. With regard to tactics and policy issues, this is certainly the case, although the lines of cleavage are by no means only regional. To the extent that political and economic leaders derive their power from the party, however, they are unified against all their competing interests and against outsiders by a common interest, namely, preserving the bases of the party's power and obeying the decisions of the party leadership. Although chosen by regional parties, party leaders hold the interests of party and country, as they choose to define them, first and foremost.

Foreign economic policy in Yugoslavia

How external economic conditions affect the domestic economy shapes the options of economic policy in Yugoslavia and the policy preferences of representatives of social and economic groups. The description of foreign economic policy in Yugoslavia after 1973 can therefore be divided into two distinct periods—that which followed the oil-price shock of 1973 and lasted until the end of the decade, and that which accompanied the onset of world recession in 1980–83 and the emergence of the worldwide debt crisis of the 1980s.

The 1970s

The decade of the 1970s had two main characteristics for Yugoslav policy makers. First, Yugoslavia experienced, as did other open, developing economies, growing unpredictability and recession in world trade; for example, rising import prices for petroleum-related goods caused supply shocks, the country's terms of trade deteriorated, and export revenues were sharply reduced. The recession in OECD economies cut demand not only for Yugoslavia's tradable goods, such as shipbuilding, tobacco, and nonferrous metals, but also for the invisible goods so important to its trade balance—temporary labor, transport services, and tourism. Protectionist barriers from the EEC against Yugoslavia's textiles, steel, and beef made the situation worse. Although the plentiful and cheap supplies of foreign commercial capital after 1973 alleviated the policy constraints during the 1960s due to reduced Western lending, the ease with which credits could replace export revenues made Yugoslavia increasingly vulnerable to the actions of foreign banks: for example, the temporary ban on further borrowing from Euromarket lenders in 1975 and the soaring interest rates and short maturities after 1978.

Second, Yugoslav policy makers were operating in a political environment shaped by reaction to the consequences of a severe recession in 1965–67. During the 1960s the policy response to the payments deficit, declining growth, and rising inflation had been shaped by a coalition of economic and political reformers favoring the rights of enterprises to control their earnings, openness to international price competition, preferences for export producers in the allocation of investment funds, and a largely unmanaged domestic market. At the same time, the constitutional changes to accommodate these reforms led to widespread political debate. The economic consequences of reform brought about social unrest over growing unemployment, income differentials due to market position, disadvantaged industrial sectors (such as coal production), regional disparities in the FEC's allocation of World Bank loans, and the rights to foreign exchange. By the end of 1971, when mass demonstrations and open factionalism among regional leaders seemed to threaten political order, the central and regional party leaders decided to

act. In the following year the League purged several regional and local leaderships, began a campaign to remove many enterprise directors, rejected the principle of an unregulated market, and pledged to restore the attention of policy makers to unemployment and distributional equity.[37]

Despite the apparent shift in the domestic balance of power in favor of federal leaders committed to an economic policy of reducing unemployment, policy makers responded to the balance-of-payments deficits and inflation of 1973–79 as they had in the past. Monetary authorities imposed classic adjustment policies—tight money conditions, restrictions on government expenditures and on enterprise funds for collective welfare goods, cash reserve requirements on enterprises, passive exchange-rate adjustments, and steep devaluation.[38] The FEC imposed a range of temporary controls on prices, imports, foreign exchange (linking import rights to export earnings), and investment in order to reduce inflation and, particularly, to achieve rapid cuts in imports. Subsidies were granted to stimulate export sales. When current account surpluses were obtained (in 1973 and 1976), the government removed the controls and expanded the money supply and credit to counter the bottlenecks in supply created by import controls and the recessionary effects on production and employment. This "stop-go" approach, a long-standing Yugoslav policy, is common among many other trade-oriented countries where the concern of financial authorities about the external balance overrides their concern about maintaining full domestic employment (including the British, after whom the policy is named). The oil-price rise happened to occur, however, at the beginning of an expansionary phase designed to restore growth which followed three years of contraction in 1971–73 (and one year after a policy shift from a fixed to a managed, flexible exchange-rate regime). This bad luck was repeated in 1977–79 when the second oil-price rise also coincided with an expansionary policy and thus renewed demand for imports.

In addition to macroeconomic adjustments, and particularly after 1975, federal leaders sought to ease the deficit with new sources of foreign capital and long-term preferential trade agreements. For example, they negotiated a state-level agreement with Iraq to provide suppliers' credits for the purchase of oil in 1976 and 1977, which, together with long-term contracts for Soviet oil, enabled the country to delay steeper cuts in oil consumption and petroleum

37. On the events of the 1960s and their close, see Carter, *Democratic Reform in Yugoslavia*; Burg, *Conflict and Cohesion*; and Dennison Rusinow, *The Yugoslav Experiment, 1948–1974* (Berkeley: University of California Press, 1977).

38. The exchange-rate devaluation was far steeper than necessary, according to Laura Tyson and Egon Neuberger. Exchange-rate policy is complicated in Yugoslavia by the frequently opposing directions of the U.S dollar and the deutsche mark. The dinar is pegged to both: the dollar dominates its trade account, the deutsche mark its invisibles account. See Tyson and Neuberger, "The Transmission of International Disturbances to Yugoslavia," in Neuberger and Tyson, eds., *The Impact*, pp. 214–21.

products.[39] In December 1976 the government concluded an agreement to expand relations with the EEC in an attempt to avoid another costly shock (such as the EEC's ban on Yugoslav beef imports in 1974–75) and began talks with the European Free Trade Association in 1979. President Tito conducted diplomatic visits in support of economic relations during 1977–79 to Egypt, Libya, China, France, and Britain as well as to Moscow and Washington. In 1975 and 1978 exports barred from Western markets were sold to CMEA countries, especially the Soviet Union. Over the 1974–79 period exports to developing countries rose, and trade with the CMEA was increasingly negotiated in convertible currencies.[40] At the same time, both the federal government and business banks took full advantage of increased international lending.[41] American and European banking consortia financed a series of joint ventures, particularly in energy and petrochemicals.[42]

39. Economists have analyzed the Yugoslav adjustment (or nonadjustment) to the oil-price rise endlessly without reaching agreement. John Burkett, citing a report by Wharton Econometric Forecasting Associates (1983), notes that "Yugoslavia's ratio of energy consumption to net material product (NMP) remained almost unchanged between 1960 and 1982 and that its NMP elasticity of energy demand was close to unity for 1974–82 . . . that Yugoslavia's record of energy conservation compares unfavorably to that of the centrally planned economies and still more unfavorably to that of industrial capitalist economies . . . [and] Yugoslavia is 'one of the most energy intensive economies in the world (in terms of energy requirements per $1 billion of GNP).' " He goes on to suggest that where soft budget constraints (which reduce a firm's need to respond to price signals) are produced by policy designed to redistribute income (as in Yugoslavia), then the response will be even slower than for policy designed to stimulate output (as in the CMEA); see his analysis in "Search, Selection, and Shortage in an Industry Composed of Labor-managed Firms" (Unpublished paper, Department of Economics, University of Rhode Island, May 1984). In addition, conservation and rationing in response to price increases presume the availability of short-term substitutes that simply did not exist. INA-(Industrija Nafte) Zagreb began in the late 1950s to encourage the substitution of oil for other forms of domestic energy. By the late 1960s, after a wholesale move to convert from wood and coal to oil in home heating and to close coal mines, demand was driven almost entirely by supply. INA formed a joint venture with Dow Chemical Company in 1978 to increase foreign-exchange earnings; the government selected petrochemicals as an export branch; and the use of tractors for cultivation increased dramatically after the restrictions on their purchase by private farmers were lifted under the outward strategy of the 1960s. These moves are thus parts of the story. So, too, is the monetarist response to inflation and deficits. Because INA purchases oil with foreign exchange and sells predominantly on the domestic market, it was hurt by the exchange-rate policy, and because its subsidiaries that sell exports in petrochemicals were subjected to nontariff barriers in the 1970s, debt mounted. In addition, energy policy is a republican responsibility. The push to export, rising energy prices, and differential distribution of energy resources among regions for energy led each republic to seek to become a self-sufficient energy producer, leading to vast overcapacity in oil refining. Nuclear power plants were planned, but the construction costs and the difficulties of the joint venture with Westinghouse to build one such plant, Krško, proved major obstacles to the construction of the others.

40. Exports to the CMEA averaged 43% of the Yugoslav total in 1974–78 (up from 35.6% in 1971–73), while exports to OECD fell from an average of 55.2% in 1971–73 to 40.5% in 1974–78. Tyson, *The Yugoslav Economic System*, pp. 88–91.

41. Long- and medium-term credits amounted to $500–600 million in 1974; in 1976 net official and Euromarket borrowing reached $1 billion; in 1977 and 1978 alone more than $750 million in World Bank loans was obtained for development projects in agriculture and transportation. The Yugoslavs were the first outside the EEC to receive European Investment Bank loans. Loans from Kuwait, Germany, and Japan supplemented further credit from the IMF and the U.S. Export-Import Bank.

42. Petrol Ljubljana, for example, financed a natural gas pipeline in the Eurodollar market

Whereas the behavior of firms and authorities responsible for macroeconomic and foreign policy in the 1970s appears to have been almost automatic, a result of learned behavior from persistent balance-of-payments deficits and unpredictable international conditions, more obviously political choices, such as among conflicting domestic economic policies and redistribution, were far less easy. During 1967–71 firms and regions had exchanged charges of unfair deals. While wealthier regions had protested the foreign-exchange retention quotas of the National Bank and the allocation of foreign loans, poorer ones cited growing inequalities in intraregional economic growth and incomes. Similarly, dissent was common among domestic producers who lost out in the competition for supplies and foreign exchange with export producers and among students facing growing unemployment.

The compromise of 1974, which was institutionalized in a new constitution and in its economic counterpart, the Law on Associated Labor of 1976, gave economic actors greater control over their own turf and then required them to negotiate agreements with other actors on issues of allocation. That is, it further reduced the authority of the federal government, increased republican authority, and shared the remaining central authority among regional representatives armed with the protection of a political veto over federal policy. Firms were subdivided into smaller decision-making units (BOALs), and the system already employed in the provision of social services—negotiated agreements and contracts among interested parties—was extended to apply to BOALs, firms, or firms and representatives of other social interests, such as consumers or the government. This strategy was intended to permit the coordinating tasks of government, namely, to improve the functioning of the market and to ensure equitable outcomes by sharing information, risks, and resources, to continue without undermining the promised autonomy of firms and republics. In form, therefore, the new institutions reasserted the principles of the system: continuing the evolution of the economic system along its liberal, voluntarist, and federal lines and supplementing the market with social agreements among producers for solidarity. The outcome, however, was that the operation of the domestic economy and the conditions of the world economy together made it increasingly difficult to use market mechanisms and voluntary agreements to achieve Yugoslavia's foreign-trade, developmental, and socialist goals whose legitimacy had been reasserted in the compromise. Recourse to ad hoc controls, party intervention, and governmental regulation of the economy became increasingly common as the decade wore on.

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through Bankers' Trust International, and INA agreed to build a petrochemical-processing plant (Dina on Krk) with the participation of Dow Chemical. However, Dow Chemical pulled out of three such joint ventures (in Yugoslavia, South Korea, and Saudi Arabia) in 1982, when Dina was still under construction, because its revised predictions about world economic activity led it to expect surplus capacity and therefore losses. The pipeline stands empty today because of disagreements among regional governments over who will pay for the fuel that must remain in the pipeline for it to function.

The history of legislation on the most divisive issue, the allocation of foreign exchange and of liability for the repayment of foreign loans, aptly illustrates the new system. First, the foreign-exchange holdings of the National Bank were transferred to regional banks, and thereby to enterprises within the region which actually earned the exchange, and an internal foreign-exchange market. Because this transfer favored final producers and firms specializing in foreign trade and created production-damaging supply bottlenecks, enterprises in a production chain were required to include in their contracts the rights of each BOAL to the foreign exchange eventually earned. Second, communities of interest for foreign economic relations (CIFERs) were created at the regional and federal level in order to improve trade performance.[43] Given control over the use of the customs revenues that formerly supplemented the federal budget, representatives of foreign trade and manufacturing firms to the CIFERs were expected to coordinate foreign marketing, discuss export policy, and negotiate contracts to distribute foreign exchange between them. Third, administrative responsibility for the balance of payments was transferred to republican governments. These regional balance-of-payments accounts and the proportions of foreign borrowing to which each had a "right" were negotiated and then set down in the operational documents of the 1976–80 Social Plan. Finally, business banks were also permitted to borrow abroad. Thus, when stabilization policies imposed credit and import restrictions at home, banks could seek foreign credits to continue to meet the investment and import needs of their enterprise depositors. At the same time, complaints from Euromarket lenders at the resulting unregulated explosion of requests for small loans strengthened pressures to reform the banking system.[44] Nonetheless, heeding the advice of the governors of the National Bank, the federal cabinet responded to declining foreign reserves and pressures for debt repayment by giving free rein (in the shape of the Law on Foreign Exchange, 1977) to enterprises in foreign-capital markets for fear of the conflicts that central allocation might provoke. By 1979, fearing the consequences from both international and domestic critics of growing indebtedness, an exasperated Prime Minister Veselin Djuranović made the publication of debt figures illegal.

Between 1976 and 1978 central authorities also changed foreign-trade legislation to attract more foreign investment and to encourage joint ventures. The government significantly reduced previous limits on foreign investors designed to protect domestic producers in favor of exporters who argued that cooperation with foreign firms could make them more competitive internationally by increasing their access to both foreign marketing networks and

43. Patterned after those for education, roads, etc.

44. Donald W. Green, "Comment," in Tyson and Neuberger, eds., *The Impact of International Economic Disturbances*, pp. 248–49. Debates over proposals for the banking reform also paralleled the political factions of the period; see Shirley Jean Gedeon, "Yugoslav Monetary Theory and Its Implication for Self-Management" (Ph.D. diss., University of Massachusetts, 1982).

more advanced technology. The major new Foreign Trade Act, written between mid-1976 and mid-1978, liberalized a range of foreign-trade activities, including the right of foreign firms and banks with business in Yugoslavia to set up local representation and ending the import-licensing system. At the same time the effects of the temporary controls often countered efforts to achieve external balance by liberalization. In other words, as with monetary policy, maintaining an external balance took priority, but efforts to increase the flow of finances addressed the conflicts among domestic producers.

The effect of domestic inflation on export competitiveness also led authorities to introduce a system of contractual incomes policies on top of deflationary policies and price controls.[45] In place of federal price ceilings, enterprises and local and regional governments were expected to negotiate social compacts on prices, taxes, and consumption. These were to serve as price guidelines, subject to governmental review, for enterprise negotiations with consumers and other enterprises. (Because personal incomes are a proportion of enterprise income, such guidelines would theoretically also limit labor costs and consumer demand.) Exceptions were permitted, however, to protect the tourist industry (e.g., lower gasoline prices for foreigners) and where rising costs were a result of import prices.

Growing unemployment fed the syndicalist impulse buried within self-management: to protect the jobs of workers already employed but reduce the obstacles to accumulation (and therefore to workers' incomes) from inefficient employment. Enterprises were given control over labor relations, including the right to dismiss "disorderly and lazy workers" (ostensibly, such control was intended to reduce absenteeism and increase productivity, but often it was used to fire low-skilled labor). To reduce frictional and structural unemployment, enterprises were urged to anticipate future employment needs and contract with local schools and students. A major educational reform accompanied this solution. Local governments also negotiated social compacts on employment with firms, which amounted in many cases to less than subtle pressures to hire. New legislation permitted individuals to loan private resources to a firm in exchange for employment or to form private cooperatives as long as these did not compete with firms in the social sector. In 1978, finally, the government expanded the meager program of unemployment compensation.

Although the social plan lists only nonbinding preferences for growth rates and their components and for the sectoral investment priorities to guide credit policy, it is the main avenue for policy makers to influence longer-

45. Import prices were responsible for between one-fourth and one-half of the rise in inflation, which averaged 22% in the early 1970s, moderated momentarily, and shot up to 40% in 1979 and continued to rise. See OECD, *Yugoslavia*. The distortions from the monetary policy led as well to a growth in registered claims between enterprises well above the rate of inflation as firms adjusted to the credit squeeze, and measures to equalize income in fact led to factor indexation.

term structural adjustment and for regional leaders to discuss foreign-trade policy. The negotiations for the 1976–80 social plan took place in 1975—a year of world recession, an EEC ban on Yugoslav beef, soaring import prices, and a Euromarket credit squeeze. Negotiators represented leaders who were convinced that the policy of export-oriented investment and price increases to cut import demand had not been successful. The plan was adopted more than a year late as a result of conflicts among regional leaders over investment priorities, regional development policy, and the regional allocation of international loan monies and of foreign exchange. Among the goals of the plan, correcting the balance-of-payments deficit, particularly the structural imbalance from import dependence, took first place. The list of investment priorities, as always,[46] was a mix of export promotion (shipbuilding, agro-industry, tourism, nonferrous metals) and of import substitution (basic chemicals, ferrous metals, equipment, synthetic rubber, infrastructure, electric power, coal, petroleum and gas). Although the emphasis shifted to import substitution, many of those industries are also significant export producers (chemicals, ferrous metals, energy), and the emphasis on producers of domestically available substitutes for raw material imports whose world prices were rising suggests that the investment priorities were intended not to protect domestic producers but to satisfy exporters' needs.[47] Despite the stated goals of the 1974 compromise, the employment problem was largely unaddressed. Meanwhile, the potential impact of the investment priorities for the balance of foreign-trade power among the regions, at a time when the export market shares of manufactured goods to the OECD were already declining, was a matter of growing concern for some leaders.[48]

The usual problems of policy implementation in Yugoslavia when consensus is lacking were complicated by two additional factors. The restoration of political order after 1972 and the compromise of 1974 had been won at the expense of an increasingly powerful, if divided, reform coalition. In addition to the purges of 1972, therefore, the party reasserted its appointment power. Moral-political commissions were established in educational insti-

46. Schrenk et al., *Yugoslavia*, p. 209; Chittle, *Industrialization*, p. 106.

47. It is not wholly accurate, therefore, to identify this social plan as one of import substitution and employment growth. Nor is the plan protectionist. It did appear to resurrect the less developed areas to the position of suppliers of raw materials to exporters, while the operation of market forces continued the almost total domination of both import and export trade by Croatia, Slovenia, Serbia, and Vojvodina. On the unusual interpretations of comparative advantage by Yugoslav policy makers, see Tyson and Eichler, "Continuity and Change," p. 154, and on their concept of dynamic comparative advantage, see Diane Flaherty, "Economic Reform and Foreign Trade in Yugoslavia," *Cambridge Journal of Economics* 6 (July 1982), pp. 105–43.

48. On trade changes, see "The Relative Performance of South European Exports of Manufactures to OECD Countries in the 1970's: An Analysis of Demand Factors and Competitiveness," *Economic Bulletin for Europe* 34 (1982), pp. 503–61. The effect of OECD protectionism against steel, textiles, and shipbuilding caused significant problems for Bosnia and Croatia, for example, while the rising value of domestic raw materials and energy caused a number of concerns, including the outcome for any shifts in the distribution of economic power among regions.

tutions to facilitate party approval of appointments. *Nomenklatura* was resurrected. In 1975 a party campaign to renew discipline and reinvigorate its membership included changes in cadre policy, pressures on youth, the army, and people in decision-making positions to join the party, a major conference in Sarajevo on democratic centralism, and blatant police harassment of potential mass leaders. Behind the scenes there was substantial jockeying for power, but it was veiled by self-censorship, attacks on university professors and writers, and "between the lines" polemics.

The second problem concerned the policies themselves. Together, the confusing signals from the international system, the piecemeal response of central policy, the new institutions that, if anything, were bound to lead to greater confusion, and growing scarcities of foreign exchange and imported production materials created more rather than fewer conflicts. For example, the premise underlying macroeconomic adjustment policies—that firms would, or could, adjust rapidly to increases in input prices by cutting demand—conflicted with the conditions under which firms operate, including the lack of substitutes and the restrictions (moral and legal) on layoffs. Firms also anticipated contractionary policies by taking advantage of expansionary policies to overpurchase imports and responded to import controls by reclassifying goods. The policy commitment to greater distributional equality was undermined by the transfer of increasing responsibility for consumption to individual purchases on the market simultaneously with policies to reduce aggregate domestic demand. Inequalities in standards of living among the population increased instead according to the market position of their particular workplaces; their ability to obtain nonmarket sources of food through family ties in rural areas; their success in obtaining a socially owned apartment; and particularly, their foreign-exchange assets and their regional residence. Growing scarcities increased oligopolistic tendencies among firms and upset the balance that the 1974 Constitution had intended between republican control over economic resources in their territory and the political veto of republican representatives over central policies. Republican governments put up protectionist barriers around their region, negotiated bilateral agreements with other republics, and sought to become self-sufficient in necessary supplies, such as energy. Finally, the contracting process increased delays. Decentralization of foreign borrowing allowed firms and republics to free-ride on the federal government's guarantee of repayment. And in directing investment resources, the priorities of the plan did not always supplant economic power.

Rather than retire further from economic decision making, both governments and party organizations found it necessary to become more assertive.[49] Barter, pressures on firms from local party organizations to increase em-

49. This was done both with and without invitation. Some observers insist that the intention all along was to strengthen governmental economic activity.

ployment, exemptions from regional legislatures to export producers on regulations against firing labor, administrative allocation of foreign exchange, and other methods contravened the voluntary premise upon which the new institutions had been built and increased both inequalities and inefficiencies.

To resolve some delays and disagreements, federal leaders even altered rules for formulating central policy and obtaining consensus. Reflecting an effort to strengthen the federal executive's ability to cope with economic trends, the Council of the Federation was brought out of mothballs, subdivided,[50] and promoted as a place where issues that cut across regions and policy domains could be discussed prior to public debate. The public stature of these personages was, in turn, supposed to lend greater authority to federal economic policy against the many who were withholding compliance on the grounds that policy represented particularistic interests. In order to obtain agreement on a stabilization policy and regional shares of responsibility for the balance-of-payments deficit in 1979, the FEC began to apply its constitutional prerogative of a "temporary measure."[51] As regional governments and the FEC battled over international adjustment, the organization of parliamentary delegations also shifted: in 1980, the de facto division of delegates to the Federal Chamber into regional blocs was formally accepted, while the Chamber of Republics and Provinces voted to reject the principle of imperative mandate that had bound delegates to the detailed instructions of their republican assemblies.[52]

The 1980s and the debt crisis

By 1978, early 1979, the second major increase in oil prices (including for Soviet oil), coupled with a dramatic downward spiral of the prices of most primary commodities, fueled a record trade deficit in Yugoslavia. Consequently, foreign indebtedness increased dramatically to cover the balance-of-payments deficit. The government returned to contractionary policies in mid-1979 to curb the steep rise in prices. To replenish foreign reserves, it took a $340 million credit from the IMF in May and by the end of the year, requested an IMF compensatory loan facility on the grounds that the poor harvest that year, the earthquake in Dalmatian tourist areas, and the decline

50. The Council of the Federation was created by the 1963 Constitution as an advisory body to the head of state. It was subdivided into two councils—one for the economy and one for the socio-political system—in 1973, a year before Ceaușescu created the Supreme Council of Economic and Social Development, then into four in 1974—international relations and constitutional order attached to the Presidency; social order and economic development and policy attached to the FEC—and in 1979, renamed the Federal Social Councils when the Council for Constitutional Order (internal security) was absorbed by the Presidency. On its role in the 1970s, see Burg, *Conflict and Cohesion*, pp. 242–300.

51. A temporary measure, requested by the FEC, requires the Parliament to vote by delegates rather than blocs; a two-thirds majority authorizes the measure for a year until agreement is forged. See ibid., pp. 291ff.

52. Ibid.

in workers' remittances were beyond its control. It then began negotiations with the Fund to obtain a three-year standby credit. These negotiations coincided with the interest-rate shocks of the spring of 1980, drawn-out negotiations with a recalcitrant EEC over a renewal of its trade agreement, another poor harvest, and in May 1980, the death of President Tito and the election of a new government.[53]

Furthermore, between December 1980 and December 1982, in response to the Soviet invasion of Afghanistan and the Polish crisis, Western banks virtually stopped new lending to Eastern Europe, which in their eyes included Yugoslavia.[54] The onset of the 1980–83 world recession decreased the net contribution of worker remittances to the balance of payments to only 25 percent of the trade deficit by 1981. The sharp rise in interest rates for the dollar occurred when Yugoslav borrowing from commercial banks had jumped from 10–15 percent of the total to 58 percent. The impact on the Yugoslav economy could be read in any indicator: inflation rising 50 percent a year and more after 1980, unemployment above 14 percent, negative growth rates for the gross domestic product, and capacity utilization in industry below 70 percent. Problems unimagined for thirty years became commonplace, such as capital flight of enterprises' hard-currency earnings to foreign banks, long lines for scarce consumer goods affected by the import cuts (coffee, detergent, gasoline, heating fuel, and medicines), and discounts to those able to pay in foreign currency.

Taking as her mandate the party leadership's decision to restore foreign confidence, the new prime minister, Milka Planinc, accepted the Parliament's nomination on condition that she be allowed to appoint 50 percent of her ministers without regard for the nationality quotas that govern all federal positions. Over the next five years, a prolonged period of recessionary "stabilization" policies to meet the conditionality terms of the three-year standby agreement negotiated with the IMF and efforts to cut imports to the bone were either decreed by the FEC or railroaded through a contentious Parliament.

The decision to confront the level of foreign indebtedness, the balance-of-payments deficit, and domestic inflation thus began in familiar ways—IMF assistance to gain time and leverage with creditors, orthodox deflation, and additional import controls. However, the worsening of international conditions had clearly eroded the political strength of those supporting the structural adjustment policies of 1973–79. Between May 1980 and May 1981, the central leaders of the party (the party and state Presidencies), under the authoritative auspices of the Federal Social Councils, decided to call an

53. There is perhaps some irony in the fact that the IMF and the International Bank for Reconstruction and Development (IBRD) held their annual meeting in 1979 in Yugoslavia.

54. Bank loans outstanding to the region dropped $7.0 billion to $63.1 billion in those two years. Peter Montagnon, "Eastern Europe: Is It Coming back to the Market?" *The Banker*, October 1983, pp. 41–44.

ad hoc commission of party and government leaders to formulate a long-term program for structural adjustment of the domestic economy to the new world conditions. As in 1961, the choice of the chair (the Slovene representative to the state Presidency, Sergej Kraigher, who had held many governmental economic posts, was known for his liberal economic views, and had kept a low profile in regional offices after 1972) indicated, first, that a change of policy had already been decided and, second, that the conditions for obtaining new foreign credits and achieving external balance took priority over the potential political consequences of the recession. The balance of power among policy makers had shifted to external creditors and domestic economic liberals.[55]

At the same time, after caustic debate the leadership decided to seek new financing and foreign assistance in rescheduling the debt. The result was substantial long-term loans in 1981 and 1982; a $2 billion loan package organized by the U.S. State Department among fifteen Western countries, the IMF and the World Bank, 600 commercial banks, and the Bank of International Settlements in January 1983; and a second IMF standby arrangement in April 1984. During 1982 political leaders began to prepare the population for hardship and to wage the political fight over the policy change by referring openly to the repayment difficulties as a "crisis."

Economic policy for 1982–85 began with an austerity policy to reduce the balance-of-payments deficit and eventually pay off the foreign debt by cutting domestic absorption. Food subsidies were eliminated in 1981. Prices for energy, food, and transport were raised by one-third in 1983. All new investment for social services, infrastructure, and other governmental projects was banned. The FEC froze prices on and off over most of the period and established targets for prices and incomes in the interim. A policy of positive real interest rates was adopted in 1982 (the National Bank discount rate reached 22% by the end of 1983), and the dinar lost 90 percent of its 1979 value by 1985 as a result of two devaluations and the decision to allow the dinar to float. In addition, the government imposed restrictions on all imports unrelated to production, such as consumer goods and scientific journals, praised all efforts at import substitution with domestic materials, and in 1982–84 reluctantly permitted republican governments to issue ration coupons to consumers of meat, coffee, cooking oil, gasoline and heating fuel, electricity, sugar, and detergent. The FEC also used a range of tactics to boost exports—easy credit, exceptions to the exchange rate, fiscal incentives, and media campaigns.

To repay the debt, the FEC also chose to increase its control over sources of foreign exchange within the country. For example, to stop the massive

55. Vice-premier for economic affairs in the Planinc cabinet, Zvone Dragan, was quoted widely in the Western press during 1980 in support of an economic policy identical to the one that the Kraigher Commission eventually proposed.

outflow from consumers' shopping excursions abroad but avoid either alienating citizens or initiating a run on private savings accounts, in 1982 it imposed temporary financial restrictions on foreign travel, set up random police checks along highways for violations of customs regulations, and cracked down on black-market speculation. All banks were required to give priority to debt repayment over new borrowing, a rule that the FEC enforced with new sanctions. Regional governments were required to project their import needs quarterly or have the FEC do it for them; and banks, CIFERs, and enterprises that took on new obligations before old ones were paid were threatened with interest penalties and a loss of foreign-exchange rights. Because it was still illegal to reveal debt figures, the government hired a British accounting firm in 1982 (and paid in convertible currency) to establish, for the IMF, the actual level of foreign borrowing. After several efforts to negotiate an acceptable system for allocating foreign exchange, full control was returned to the National Bank in July 1983. This included the authority to prevent any regional affiliate from disbursing foreign-exchange holdings to its depositors in the event debt was outstanding, regardless of where in the country it had been incurred.

At the same time, the government began a process of reform to resolve what the Kraigher Commission (the Commission for Problems of Economic Stabilization) and its supporters identified as the source of the economy's difficulties—the economic inefficiency and arbitrary governmental and party intervention in firm decision making promoted by the policies of the 1970s. During 1982 the commission produced a set of "premises" and, subsequently, fifteen working papers designed to transform these principles into action.[56] After a year of publicity and harmonization, in July 1983 the FEC presented the "stabilization" or "long-term" program to a stormy session of the Federal Assembly to obtain the approval necessary to the conditions of the IMF loan, and above all to make it appear that the policies were internally generated rather than externally dictated, thereby winning leaders' support.[57]

The core of the commission's reform is a restrengthened market meant to replace the government and the contracting system. It entailed five changes:

56. The staff and its director were also drawn from economists and politicians known for their liberal views and preference for the market economy. The long-term program is contained in Komisija Saveznih Društvenih Savjeta za Probleme Ekonomske Stabilizacije, *Polazne Osnove Dugoročnog Programa Ekonomske Stabilizacije* (Sarajevo: Izdavačka Delatnost, 1982); an extensive discussion of the program can be found in World Bank, *Yugoslavia: Adjustment Policies and Development Perspectives* (Washington: IBRD, 1983); for an analysis, see John P. Burkett, "Stabilization Measures in Yugoslavia: An Assessment of the Proposals of Yugoslavia's Commission for Problems of Economic Stabilization," in Joint Economic Committee, *East European Economies: Slow Growth in the 1980's* (Washington, D.C.: GPO, 1986).

57. The Federal Assembly debated three days and two nights before it adopted the stabilization program. One night was spent waiting for the Slovene delegation to consult its base in Ljubljana before conceding to an article authorizing the National Bank to prohibit any payment to a business bank with outstanding foreign obligations, that is, before agreeing to the rule of solidarity on foreign debt repayment should it be necessary.

using world-market prices and competition to guide production decisions; instituting measures to break down regional and local barriers to labor and capital product mobility on the domestic market; providing greater autonomy to enterprises by permitting them to retain their earnings and to respond to market signals; using financial sanctions to discipline inefficient producers (implying an end to government protection of failing firms, redirection of investment for regional development, and subsidies to maintain cross-regional wage levels); and increasing the use of private resources to reduce the slack in services and employment.

In effect, these changes extend the orthodox approach toward foreign liquidity to the problems of domestic inflation and unemployment. The commission's program is also a return to the reform strategy of the 1960s and to the goal of eliminating the differences between Yugoslavia and OECD countries in labor productivity, economic efficiency, and competitiveness. The export profile that should result, according to the program, includes technologically sophisticated processed goods, particularly metal products and chemicals; tourism; and domestic raw materials and food; in addition to production techniques suited to the country's raw materials and labor surplus.[58]

To achieve these ends, the reform program advocates a "realistic" exchange rate, phased liberalization of imports, a national foreign-exchange market, economic incentives to export production, and joint-venture legislation (enacted in 1985) to enable older industries in the north to restructure with new technology. To promote regional development, the commission suggested that the Federal Fund (always a target of liberal reformers) be transformed from a vehicle of fiscal redistribution supplementing the resources of budgets in the less developed regions to a vehicle that would stimulate the growth of real capital and labor markets among regions. The program's solution to unemployment in the southern regions appears to lie in lower labor costs and a dual economy for export specialization.

A key aspect of the program is the elimination of the possibilities for financial laxness on the part of enterprises and banks. The program offers two solutions. The first would reduce the economic authority of regional and local party and government leaders. This should result from such policies as the uniform and market criteria for pricing utilities and directing economic resources, the transfer to private resources of some of the tasks of local governments (housing, social services) and the election of clients to the local boards that administer such services, the addition of delegates from enterprises to the Federal Fund, and recentralization of the accounting system for foreign borrowing. This effort to diminish their authority is also clear in the shift of responsibility for implementing the policies from regional and local govern-

58. As Burkett argues, this appears to be a reversal of the Heckscher-Ohlin prescription; see his "Stabilization Measures," p. 22.

ments to financial and economic experts, illustrated by the enhanced authority of the Social Accounting Service (an office of the National Bank and its regional affiliates) and the effort to increase the number of trained economists employed by enterprises. Also, the commission recommends that incomes policies—self-management agreements to tie incomes to productivity under the reform—be supervised by a firm's trade union branch rather than by government agencies.

The second solution would try to free economic decision makers from social and political pressures by extensive revision of banking and labor legislation and then to increase their economic incentives.[59] Thus, producers' prices would be freed from the contracting system. Any loss of enterprise revenue as a result of price controls to ensure minimal living standards would be compensated. Tax reform would cut tax levels from 35 to 30 percent, replace obligatory enterprise contributions to local governments and to social funds for income transfers to fulfill the principle of solidarity with taxation on incomes and property, and excuse unprofitable firms from taxes and depreciation while they reorganize. Lagging investment in housing, social welfare, infrastructure, agriculture, and trades would be stimulated by private resources: private investment and independent, small businesses (particularly to encourage the repatriation and productive use of the earnings of returning migrants as well as their employment), changes in landholding limits, user fees, and higher retail prices.

Thus, while macroeconomic stabilization policies reflected the orthodox response of monetary authorities and the FEC to deficits on the balance of payments from 1949 onward, the Kraigher Commission on policies of structural adjustment recommended a process of liberalization and export orientation similar to the economic reforms of the 1960s. Like those of the 1960s, the shifts in policy orientation in the 1980s sought to limit the opportunities for political intervention in economic decisions and thus to replace the regulatory and administrative apparatus of the previous period with new institutional actors. Because the policy also implied that solidarity as a value would no longer inform policy, it seemed likely that political reforms would be required as a substitute for financial compensation.

Conclusion

The response of Yugoslav policy makers to the world recession and debt crisis of 1980–83 introduced no change in their long-standing approach to

59. On the legislation to increase financial discipline, see Peter Knight, *Financial Discipline and Structural Adjustment in Yugoslavia: Rehabilitation and Bankruptcy of Loss-Making Enterprises*, Staff Working Paper no. 705 (Washington, D.C.: World Bank, 1984). The laws are: the Law on Rehabilitation and Liquidation of Organizations of Associated Labor; the Law on Securing Working Capital; the Law on Securing Payments among Users of Social Resources;

balance-of-payments adjustment: monetarist orthodoxy combined with administrative controls and renewed foreign borrowing while the deflationary medicine was being swallowed. The reform program that the Kraigher Commission had recommended, on the other hand, clearly reversed the policies of 1974–79 on the role of foreign trade in the strategy for economic growth, mechanisms of internal allocation, and redistributive goals. The implications of this shift for both economic advantage and political power have led to sharp disagreements within ruling circles. References to the "paper unity" of their unanimous adoption of the reform package suggest agreement on the principles of repaying the foreign debt and increasing exports but *not* on the methods of achieving those goals.[60] Two questions thus arise. Why was this choice made over others? What effect are the politics of austerity and reform likely to have on the new policies and their implementation?

This essay argues that Yugoslav foreign economic policy can best be explained by the dual base—domestic and external—on which the power of its political leadership rests. That base was formed by the development strategy chosen in the late 1940s and, in particular, by its influence on the form of Yugoslav relations with the world economy, on the limited economic role of the state, and on the bargaining among domestic interests over economic policy. In contrast to the policy shift of the early 1970s, when the domestic bases of the party's power appeared threatened, the reversal of the early 1980s was a response to the external bases of that power: namely, the conditions underlying Yugoslavia's special position in the international arena which allows it to maneuver among competing blocs and gain more than its size would predict, and its economic capacity to support a political balance among competing interests at home.

The choice of policies suggests strongly, in other words, that the ruling elite in Yugoslavia views any action that would alter either its development strategy or its special relations with the world economy as threatening.[61] Despite the objections of many leaders to rescheduling the debt, despite

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the Law on the Social Accounting Service; a law to tie payments out of joint reserve funds to movements in the retail price index; and a law limiting increases in personal income to workers in loss-making or illiquid work organizations to 50% of that in the average minimum wage in the republic or province.

60. Gojko Marinković, "Šesnaest plenuma—jedna nit," *Danas* 162 (26 March 1985), pp. 7–9. Participants in the Central Committee discussions refer often to the parallels between the tone of these meetings and the tone of meetings leading up to "Karadjordjevo," the meeting of the party leadership in December 1971, when the Croatian leadership was asked to resign for allowing economic disagreements to manifest themselves in political nationalism, a meeting that signaled the end of the trade strategy of the 1960s. The regional disagreements were also manifest in the spring 1985 debate over the different versions of the same stories on the stabilization policy appearing in the regional editions of the LCY newspaper, *Komunist*.

61. Political integration, important in countries' responses to world economic recession, takes different forms in Eastern Europe: a single leader in Romania; a unity coalition in East Germany; the military in Poland; and the temporary success of one faction in Hungary and Yugoslavia (see the essays by Ronald Linden, Thomas Baylis, and Ellen Comisso and Paul Marer in this volume).

threats by members of the government during 1982–85 to turn eastward if the West continued to be unsupportive, and despite the sharp conflicts at high govenment and party levels over policies required by international financial authorities, rescheduling did take place. Also, the prime minister visited Washington in April 1985, and the IMF's policies toward interest rates, the exchange rate, a foreign-exchange market, and restrictions on aggregate demand (including reductions in personal income and required pay cuts in enterprises showing losses) prevailed. The renewal of these policies and the decision to speed up their implementation in 1983–84 were in response to IMF criticism made after its August 1982 visit that spending cuts, interest rates, and the pace of devaluation had not been satisfactory. The return of control over foreign-exchange allocation to the National Bank (against which the Slovene government held the Federal Assembly deadlocked for a night) came after "pressure from Western creditors to put some centralized order into its loose system."[62] The structural changes in foreign-trade policy to reduce the trade deficit were those proposed by the World Bank mission.[63]

A second reason for this policy choice is that the changes in the economic role of the government which other strategies would have required were clearly unacceptable to those chosen by the party leadership to formulate the new policy. Opting for liberalization, competing interests have agreed to disagree on specific policies and beneficiaries in order to protect the current distribution of authority over economic decision making. In contrast, planning; a coherent and directive industrial policy; a national, enforceable incomes policy; or even a countercyclical monetary and fiscal policy would require changes in the actual functions of the government's economic authority, in the rights of both enterprises and subordinate governments, and in the consensual basis of economic policy making which would also undercut the bases of economic and political power in Yugoslavia. That this is not simply an issue of centralization alone is clear from the fact that significant opposition failed to prevent the renewed authority of the National Bank—certainly a form of centralization—or the policies of a uniform, flexible exchange rate,[64] a realistic positive interest rate, and customs liberalization—all centrally defined methods of fiscal redistribution and investment policy.

Third, to the extent that there was any bargaining among domestic interests over the policy details at this stage, the advantage in Yugoslavia in what is perceived as a crisis of accumulation (trade revenues, inflation, and economic growth) lies with those who have greater market power—especially foreign trade and export firms. This bargaining strength may explain why the export profile that is being promoted reflects the current regional and sectoral dis-

62. Cited in David Buchan, "Rescheduling the Problem Debts," *The Banker*, October 1983, pp. 47–49.

63. See the World Bank, *Yugoslavia: Adjustment Policies*, especially pp. 94–96.

64. The Croatian political leadership fought unsuccessfully for a dual exchange rate; the policy of exchange-rate depreciation met significant protest.

tribution of export industries as well as the growing fears of Slovenia and many export firms that they were falling behind technologically during the 1970s. The position of reformers on redistributive issues, moreover, reflects their predominance from areas with lower unemployment and higher per capita living standards and private assets, including foreign-currency holdings.

The coalition of necessity among economic liberals, political liberals, and political conservatives who adopted the program for reform is vulnerable on a number of points. The first is the choice of new policies available should economic revival not be forthcoming. The second is the politics of austerity: the social disorder, efforts at survival, or even sabotage by the disadvantaged. The third is the politics of reform: the form of solidarity—the compensating compromise—on which political equilibrium comes to rest. This raises a second question: will the reform program be implemented or will the domestic bases of the party's power also become threatened and lead to another policy reversal?

The economic policies to address the debt produced a current account surplus in 1983 and by 1985 had reduced the deficit. Activity in foreign capital markets in 1985 indicated restored confidence, as Yugoslavia compared favorably to Latin American debtors. But exports fell in 1985, and the government and most firms had stopped borrowing. Domestic inflation continued to rise: producer prices (often significantly lower than retail prices) rose 76.9 percent between May 1984 and May 1985. Investment, particularly expenditure by governmental and social funds, had been sharply cut, threatening the economy with long-term structural damage.

The austerity policies have two consequences: they affect those with lesser assets disproportionately, and they contradict the moral economy of solidarity—the norms developed to ensure against the vulnerabilities to economic cycles. By the end of 1984, average income had fallen to 70 percent of the officially defined minimum for a family of four, and surveys reported a decline in living standards every year after 1980 for 80–86 percent of the population. Despite an increase in moonlighting, the savings of 80 percent of Yugoslav households were depleted and essentials were being cut. Almost a million people were unemployed.[65]

The survival tactics of these individuals—greater absenteeism to work second jobs, theft, barter, the exchange of produce for favors, and pressures to employ relatives—inevitably undermine the new economic policy. Politicians in poorer towns and regions most affected by the recession, faced with fewer resources to fulfill their responsibility for unemployment and local services, rely on nonmarket mechanisms: collegial reciprocity, personal connections, forced mergers of failing enterprises with profitable ones in the

65. Djuro Zagorac, "Čega se boji onaj koji radi," *Danas* (9 April 1985), pp. 21–22, and Josip Županov, "Gradjani se tresu, država je stabilna," *Intervju*, 4 January 1985, pp. 12–14. Of the 970,000 registered unemployed in mid-1984, only 50,000 received unemployment compensation, which was then on average 20% of the average wage.

same locality to spread resources and risks, and the security police. The need for political resources gives an additional impetus to efforts by party cadre to retain control, as is demonstrated by their apparent resistance on ideological grounds to increasing the scope for private resources, the spate of political trials, and the election of a predominantly conservative slate to the state Presidency in May 1984.[66]

Furthermore, both politicians and private citizens search for scapegoats and ways to differentiate in the distribution of scarce resources, such as jobs, among citizens with equal rights. The most likely result of this scapegoating in Yugoslavia is always a rise in nationalist antagonisms. Tensions were most pronounced in Kosovo, the poorest region in Yugoslavia, where student demonstrations and Albanian nationalist meetings began in the spring of 1981. Demanding changes in investment policy toward Kosovo and republic status, the protesters were answered by military occupation. Nationalist incidents, religious revival, and antifeminist backlash surfaced during the period of 1981–84.[67]

The government has nothing to offer in exchange for austerity, however, other than promises of future results. To persuade the public of the necessity of temporary sacrifices, the leadership chose a predictable but risky strategy. The decision to concede publicly the existence of a crisis began as an attempt to demonstrate the government's impotence in the face of a general international crisis and thereby rally support around the goal of defending Yugoslav independence. To explain the need to intensify austerity, the government shifted its argument. Because their difficulties were not independent of the international crisis, they argued, Yugoslavs had to assume responsibility for creating the crisis. Leaders had not implemented the wisest of policies, but citizens had also lived for a long time beyond their means. This attitude of mea culpa and democratic appeal seemed to gain the leadership the popular support it needed.[68] It did not, however, reduce the opposition of strategic

66. It is also not surprising that the Slovenes tried to institute competitive elections for the state Presidency, announcing three candidates, and that no other republic followed suit. The Slovenes consequently withdrew their initiative and sent a political conservative.

67. Nationalist incidents were reported in Montenegro in 1981; in Croatia frequently between November 1982 and May 1984; in Slovenia (over language) from January 1982 to February 1983; in Serbia, especially in response to the Kosovo troubles, since 1981; in Vojvodina and in Macedonia in 1983. On the antifeminist backlash see Slavenka Drakulić-Ilić, *Smrtni Grijesi Feminizma: Ogledi o Mudologiji* (Zagreb: Znanje, 1984). A catalogue of nationalist and religious manifestations can be found in the *South Slav Journal*. The growth in religious activities, as in many other parts of the world, is striking: 50,000 people gathered at the Marija Bistrica shrine on Assumption Day in 1982; several new, lavish mosques have been built for Moslems settled in northern cities; and meditation cults, such as that of Raja Yoga, have sprung up among the young in Bosnia. Conflicts between orthodoxy and the party have also increased; for example, in Bosnia a priest was sentenced for the content of his sermon, and in April 1985 the archbishop of the Serbian Orthodox Church refused to meet with the minister for relations with religious communities for the first time in postwar history.

68. Josip Županov, "Gradjani," calls this political quiescence the "Yugoslav miracle," although he goes on to suggest that the explanation lies in the lack of institutional vehicles for aggregating interests; the result is a fragmentation of action into informal networks, local solutions, and passive rebellion—substandard work, theft, nonpayment of bills, sick leave, and so forth.

groups, whose members included professionals entrusted to enforce the new policies and certain regional politicians. Furthermore, the invitation to participate in the search for remedies and therefore to examine causes of the crisis encouraged dissenters.

Finally, the long-term prospects for reform depend on the political equilibrium that the leadership can manufacture. In similar situations in the past, two forces have fashioned this equilibrium. Kardelj drafted new constitutions in order to institutionalize the liberal position on economic policy and, simultaneously, to create forms of representation and decision making which lessen the power of the opposition; these also prevented the accumulation of political grievances that might have threatened the system itself (e.g., a mass movement, a conflict between ethnic communities, or "dangerous alliances"—to use Kardelj's apt phrase—of rich against poor, north against south). Tito's political purges removed intransigents and halted any escalating conflicts that appeared to exceed the party's capacity to retain its power.

Between 1982 and 1985, there were increasing calls for political reform and debates on the "true meaning of AVNOJ"—the 1943 pact laying the federal and single-party foundations of the state. A proposal by a leading Belgrade politician to revise economic policy making along lines more functional than territorial was trounced at the Twelfth Party Congress in 1982, but the leadership did establish two ad hoc commissions—one on implementation of the reform, and one on constitutional reform. The second is responsible to the Federal Social Council on constitutional issues as well as to the party leadership and is chaired by a university professor of political science who is also an old-guard Partisan, a Central Committee member, a Serb, and a Supreme Court justice. Its early reports contained only a series of compromises, however.

To date the dual weapons of recession and political trial have effectively prevented mass political activity, but the party leadership remains internally divided. There have been unprecedented challenges between the Central Committee and the Presidency of the League, as well as open duels between republican politicians.[69] Disagreement within the Parliament has forced the government to resort increasingly to temporary measures to enact legislation. In December 1984 the finance minister was fired for obstructing a political compromise in the new law allocating rights to foreign exchange. The compromise was between the National Bank and enterprises, and between the conditions of the IMF program and the recommendations of the consortium

69. See note 66. The conflict between technocratic reformers without a political base in alliance with international authorities and politician-technocrats, familiar in many Latin American countries, can be seen in the published exchange of letters between two economists with different perspectives who specialize in monetary problems: Aleksander Bajt and Ivo Perišin. The latter (also a Central Committee member) charges the former with encouraging the IMF to be strict in order to push Yugoslavia over the brink of reform; see *NIN* 1784 (10 March 1985) and *Danas* 163 (2 April 1985), pp. 10–11.

of commercial banks and Western governments established to coordinate Yugoslav debt rescheduling.

If there is to be a new political compromise, it will have to meet a number of difficult conditions. First, it must satisfy the leaderships of both Croatia and Serbia, the two largest regions in which more than two-thirds of the population reside. Current Croatian leaders are the victors of a purge in 1971–72 against leaders of the reforms of the 1960s who thought Croatia would benefit by the country's assumption of an international posture and viewed the other regions as a drain on Croatia's growth potential; moreover, the current leaders predominate from poorer, inward-oriented regions in Croatia, such as Istria and the Dalmatian hinterland.[70] The near-bankruptcy of Croatia's largest bank in 1982 and the republic's need for central assistance in these matters probably reinforced the current opposition of the Croatian leaders to enlarging the scope of the market and to outwardness.[71] The current Serbian leadership favors the market and exports but is leaning against political reform because of changes in the balance of power among its producers and because of two formative purges—of economists opposed to the 1965 reform on the grounds that it dismantled federal development planning and of the governmental leadership in 1972 for supporting liberal reform of the party and challenging Tito personally. The influence of Slovenia will, as always, be significant because of its economic strength and ability to join several political alliances.

Second, any new compromise must find a way to compensate the less developed regions for their lowered economic status in the reform's foreign-trade and development policies. Third, the compromise would have to combine some of the institutional changes of the economic reformers with the continuing dominance of political conservatives because of the political lessons both groups learned in the 1960s and the difficult international conditions of the 1980s. In any case, if there is an agreement, it will be a collective agreement to sacrifice particular interests to the bases of party rule in general. The outcome in both economic policy and institutional reform should reveal much about the competing claims to authority as well as competing hypotheses about the distribution of power in Yugoslav society.

70. The prime minister was also a member of this team, however, which supports the argument that roles can determine policy more than regional representation can, at least in the federal government.

71. The threat of bankruptcy resulted from the dominance among the banks' depositors of the country's main oil producer and from several export-related investment failures, namely, the joint-venture petrochemical plant, Dina on Krk, and the aluminum-processing plant of Obrovac.