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**A Troubled Pass to Europe:
Former Yugoslavia from Self-managed Socialism to Neoliberal
Capitalism**

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Sconfitta dopo sconfitta abbiamo saggiato la forza del piano.
Abbiamo perso tutto ogni volta, per ostacolarne il cammino. A mani nude, senza altra scelta.
Passo in assegna i volti a uno a uno, la piazza universale delle donne e degli uomini
che porto con me verso un altro mondo.
Un singulto squassa il petto, sputo fuori il groviglio.
Fratelli miei, non ci hanno vinti.
Siamo ancora liberi di solcare il mare.
Luther Blisset, Q.

INDEX

INTRODUCTION.....	7
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CHAPTER I

An alternative Socialism: the Yugoslav Path to Socialism from the Breakup with the Soviet Union to the First Experiment of Enterprises' Self- management

1. From the Revolution to the Breakup with the Soviet Union: the Birth of the First Core of Yugoslav Socialism.....	14
1.1. The Political, Economic and Discursive Strategy of the Yugoslav Leadership in the Aftermath of the Schism with USSR.....	31
1.2. The Yugoslav Economic Trend during the 1950s. The Role of Western Financial Loans.....	44
2. Enterprises' Self-management: a Brief Historical Survey of the Yugoslav Path.....	51
2.1. Theory and Practice of the First “Formal” Phase of the Self-management.....	54
3. A First Provisional Conclusion on the Self-management System Until the Changes of 1961 and the Reform of mid-1960s.....	66

CHAPTER II

1961 – 1991: From Triumph to Tragedy

1. The Yugoslav Political and Economic Conditions in the Early 1960s.	
The “Little” Reform of 1961.....	74
2. The Reform of 1965.....	89
2.1. New rules for Enterprises: Income and Taxes in the Light of Market Regulations.....	94
2.2. Market-socialism in the Light of 1960s Reform: Prices, Banking System, Foreign trade, Foreign Direct Investments.....	97
2.3. The Reform of 1965 and the Phenomenons of Unemployment, “Work Stoppages” and Increasing Income Differentials.....	109
2.4. 1965 Reform and its Effects on Self-managed Enterprises.....	124
3. Between 1960s and 1970s: the relation between the 1965 Reform and the Social Conflicts arose among Technocracy, Bureaucracy and Working Class. The Issues of Nationalism and Nationalist crisis of 1971.....	126
4. Yugoslav Socioeconomic and Political Conditions in the 1970s.....	155
4.1. Authorities Responses to Sociopolitical Crisis and Economic Slowdown.....	167
4.2 The Third and Last Shape of Self-management: Oour, Ro, Sour and Their Function in the Self-governed Society.....	170
5. Toward the Break-up: the 1980s Crisis.....	191
5.1 The Cure Succeeded, the Patient Died. A Last Overview on the Self-management System in the Age of the Austerity and an Explaining Pattern about the fall of the Communist Cultural and Political Hegemony and the Victory of Nationalist and Ethnic Issues.....	205

CHAPTER III

Origins and Spread of Neoliberalism. Its influence on the European Integration Process and on the Post-socialist Transition of the Eastern and Southeastern European Countries. The Troubled Pass to European Union and to European Single Market of Croatia

1. The End of History? The Historical Origins and Spread of Neoliberal Hegemony.....	223
2. The European Integration Process and Neoliberal Hegemony.....	246
3. A Troubled pass to Europe. The Neoliberal Discipline of the Post-socialist Transition of the Eastern and Southeastern European Countries.....	271
3.1 Escaping from Balkan. The Discursive Strategies of Croatian and Slovenian Elites and their “new” European Identity.....	282
3.2 Croatia's Transition from Self-managed Socialism to Neoliberal Capitalism.....	287
 <i>Bibliography</i>	311

List of Tables and Figures

Table 1.1. US aid to Yugoslavia, 1949-1967 (US \$).....	49
Table 1.2. Macroeconomic growth, 1952-1970 (annual change in percent).....	50
Table 2.1. Growth of the Yugoslav Economy 1946-1968.....	76
Table 2.2 Changes In Price Levels in Percentage per Year.....	100
Table 2.3. Yugoslav Banking System Reform.....	104
Table 2.4. Employment and Unemployment from 1960 to 1975.....	111
Table 2.5. Unemployment Rates in Yugoslavia by Republics and Autonomous provinces from 1965 to 1975.....	113
Table 2.6. Number of strikes from 1958 to 1969.....	118
Table 2.7. Causes of Strikes.....	119
Table 2.8. Antagonists of workers in strike.....	120
Table 2.9. Prices level in Yugoslavia from 1971 to 1979.....	164
Table 2.10. Macroeconomic indicators in 1970s and 1980s.....	166
Figure 2.1. Social conflict across between 1960s and 1970s.....	138
Figure 2.2. Self-management after 1976 reform.....	174
Figure 2.3. Assembly of the Federation.....	189
Figure 2.4. Assembly of republics and autonomous regions.....	189
Figure 2.5. Membership of Assemblies at Communal, Republican and Federal Level.....	190
Figure 3.2: Unemployment and Inflation in US and Europe, 1960-1987.....	228
Figure 3.1. Share of assets held by the 1% of the US population.....	236

Introduction

Socialist Yugoslavia embodied one of the most interesting and contradictory experiences of the so called *really existing socialism(s)*. Soon freed from the Soviet imperialist rule (1948), socialist Yugoslavia could experiment throughout its historical movement a remarkable number of economic and institutional models – also in foreign policy, as engine of the *non-aligned movement*.

Self-management of enterprises was the keystone around which the innovations related to this permanent *economic and institutional engineering* overcame the limits of the possible, becoming the *specimen* of Yugoslav socialism¹. Just between

¹ Almost unanimous the thinking of the economists and historians about the fact that the Yugoslav shift toward another type of socialism had been ignited by the breakup of the relationships with the Soviet Union. The breakup with the USSR thrust the Yugoslav leadership to come up with a counter-strategy after the Soviet delegitimization; in this respect, the self-management born as a reaction to the USSR attack and to the expulsion from the socialist world. Yugoslavia, however, did not leave the socialist field: on the contrary, self-management was a sort of *progressive reaction*. Indeed, this model aimed to increase, at least from the point of view of the discursive strategy, the direct role of workers in the production. To some extent, the expulsion of Yugoslav Communist Party from Cominform was the genetic and traumatic moment after which the “alternative socialism” could rise.

Therefore, a lot of works have been written on this specific issue, and several the perspectives. Among the others, see the work of W. Friedman, *Freedom and Planning in Yugoslavia's economic system*, in *Slavic Review*, Vol. 25, No. 4 (Dec., 1966); J. Sirotković *Influence of the Self-Management System on the Development of the Yugoslav Economy*, in *Eastern European Economics*, Vol. 20, No. 2, The Functioning of the Yugoslav Economy. Part I (Winter, 1981-1982); J. Djordjevic, *Local Self-Government in Yugoslavia*, in *American Slavic and East European Review*, Vol. 12, No. 2 (Apr., 1953); H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, *Eastern European Economics*, Vol. 27, No. 4, The Economic System and Income Distribution in Yugoslavia (Summer, 1989); F. W. Neal, *The Reforms in Yugoslavia*, *American Slavic and East European Review*, Vol. 13, No. 2 (Apr., 1954); S. Margold, *Yugoslavia's New Economic Reforms*, *American Journal of Economics and Sociology*, Vol. 26, No. 1 (Jan., 1967); A. M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-Management Market Economy*, *Eastern European Economics*, Vol. 25, No. 2, Yugoslav Perspectives on

1945 and 1991 three constitutions were adopted and the economic system shifted from an economic model to another several times, *ex. gr.* moving from a period of central planning to a market-oriented reform (1965) and again to another type of non-market economy (the social compact system, 1974).

This work analyzes, in the background of a multidisciplinary method and through an holistic approach, the historical movement of Yugoslav socialism from its establishment after the partizan war against Nazism and Fascism culminated with the social revolution (1945) until the breakup of the Federation (chapters I and II) and the Croatian post-socialist transition to neoliberal capitalism (chapter III). For every historical period, reform, juncture and trends are first taken into account the general economic conditions and then the social and political tendencies. The aim of this study is to understand, in a given society and in a given period, how the

the Self-Management Economy and East-West Trade (Winter, 1986-1987). D. Flaherty, *Self-Management and the Future of Socialism: Lessons from Yugoslavia*, Science & Society, Vol. 56, No. 1, Socialism: Alternative Visions and Models (Spring, 1992). For a compared analysis on the former second Yugoslavia history see G. Mc Donald, D. Bernier, P. Amidei, L. Brenneman, W. Culp, S. Mac Knight, N. Walpole, *Yugoslavia. A country study*, The American University, Washington DC, 1970. In particular, for the examining them see chapter IX, *Labor*. On the broader echo in the world of the self-managing model see S. T. Bruyn, *The community self-study: worker self-management versus the new class*, Review of Social Economy, Vol. 42, No. 3, Community Dimensions of Economic Enterprise (December, 1984). One of the authors that I have frequently took into account is the Marxist economist B. Horvat: see among the other works of the author: *An Institutional Model of a Self-Managed Socialist Economy*, Eastern European Economics, Vol. 10, No. 4 (Summer, 1972); *The political economy of socialism. A Marxist social theory*, Martin Robertson, Oxford, 1982; The economic system and stabilization, in Eastern European Economics, Vol. 23, No. 1, 1984 (other works of Horvat are cited in the bibliography). A special mention merit, for the Italian production, two works edited by Stefano Bianchini concerning the Yugoslav society: *L'Autogestione Yugoslava*, Istituto Gramsci – Franco Angeli Editore, Milano, 1982; *L'enigma Yugoslavo. Le ragioni della crisi*, Istituto Gramsci – Franco Angeli Editore, Milano, 1989.

relations between human actions, discursive strategies, social blocs and classes, institutions and events are merged one another. Therefore, the work tries to highlight the discontinuities rather than the continuities: in this respect, the Yugoslav case is a privileged field of study because of the frequency of the breaking points of its economic, political and social processes.

The period between the fundamental market-oriented reform of 1965 and the anti-market reform of 1974 is paradigmatic and, to some extent, fosters the adoption of a multidisciplinary methodological approach based on an integrated economic and sociopolitical perspective. In this respect, an economic-oriented analysis helps to understand how the strengthening of market relations increased the competition among Yugoslav enterprises, the disparities among developed and less developed regions and unemployment. At the same time, an integrated economic and social analysis is fundamental to understand how the strengthening of market relations improved the enterprises managers' authority: not surprisingly several scholars argued about the technocracy as a new social bloc². In turn, this trend led to a conflict with

2 The first who wrote about the “new class”, but with regard to the Party elites, was Milovan Đilas: *The New Class: an analysis of the Communist system*, George Allen & Unwin, London, 1957. Đilas was the first dissident in the socialist Yugoslavia history: The New Class dealt with the issue of the access to power and the role of an emerging elites. Due to his writings Đilas was expelled from the Party and prosecuted several times. In relation to the role of managerial cadres and the class dynamics in Yugoslavia, see also among the others: J. Allcock, *Explaining Yugoslavia*, New York, Columbia University Press, 2000; S. Woodward, *Socialist Unemployment: the Political Economy of Yugoslavia*, Princeton, Princeton University Press, 1995 and, of the same author, *Chaos and Dissolution after the*

workers at the enterprise/firm level³, provoking the increasing of strikes (called euphemistically *work stoppages*). Last but not least, an integrated economic and sociopolitical perspective is useful to understand the rising of nationalism between the late 1960s and early 1970s, especially about its *economic* features.

Several issues then arise: what was the link between the national question and the economic strengthening of market relations? Why nationalism arose *first* in the richest areas? And then, what kind of relations the nationalists established with the republican political cadres and what kind of discursive strategy developed and fostered?

The 1980s crisis of the Federation before the Slovenian and Croat secession and the Yugoslav breakup is another privileged standpoint of analysis. Indeed, the first disintegration of the Yugoslav society occurred in the economic field and was mainly related to the *austerity therapy* imposed by international financial institutions as IMF and carried out by the governments in the after-Tito era⁴. Why was the communist

Cold War, Washington, *Brookings Institution*, 1995; Branka Magaš, *The Destruction of Yugoslavia: Tracking the Break-up, 1982-1992*, London, Verso, 1993; S. T. Bruyn, *The Community Self-study: worker self-management versus the new class*, in *Review of Social Economy*, Vol. 42, No. 3, "Community Dimensions of Economic Enterprises", 1984; S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste*, in *L'Autogestione Yugoslava*, Istituto Gramsci, Milano, Franco Angeli, 1982. For a Marxist critic of the "state capitalism" and an analysis of the class-oriented dynamics relation to the Yugoslav case see P. M. Sweezy, C. Bettlheim, *Il socialismo irrealizzato*, Editori Riuniti, Roma, 1992.

3 I provided a general scheme of the conflict between technocracy, bureaucracy and working class, analyzing also the two levels of this triadic conflictual nexus, that is enterprises (below) and the League of Communist (above): see p. 143.

4 Rich and interesting the scholar debate about the fall of Yugoslavia. See, for a useful overview about the aforementioned debate G. Stokes, J. Lampe, D. Rusinow with Julie Mostov, *Instant History, Understanding the Wars of Yugoslav Succession*, in *Slavic Review*, Vol. 55, No. 1, 1996. Among who analyze first the economic

leadership not able to raise another political and economic strategy that would bring the country out of the crisis? Why the nationalist and ethnic oriented discursive strategy had the upper hand? And again: why the Yugoslav working class, supposed to be the *ruling* class, remained passive or was even trapped in the nationalist discourse?

In chapter III the analysis concerns the transition from self-managed socialism to neoliberal capitalism. After an historical survey on the emergence of this “intra-capitalist” hegemony – which left aside the Keynesian capitalist model and the so called embedded liberalism – and in turn of its influence on the European integration process, the focus shifts on Croatia's neoliberal economic restructuring. Also in this case, the analysis is not just oriented to the economic restructuring ruled by the neoliberal political economy and made up, *ex. gr.*, of privatization, liberalization and deregulation of labor, financial and trade markets, but takes into account the social costs of the transition to neoliberal capitalism and the role that social forces played in fostering the neoliberal political and economic strategy.

causes of the Yugoslav decline see: J. Allcock, *The Fall of Yugoslavia: Symptoms and Diagnosis*, in *Slavonic and East European Review*, 72, No. 4, 1994; Susan L. Woodward, *Socialist Unemployment: The Political Economy of Yugoslavia*, Princeton, Princeton University Press, 1995 and by the same author *Balkan Tragedy: Chaos and Dissolution after the Cold War*, Washington, Brookings Institution, 1995; H. Lydall, *Yugoslavia in crisis*, New York, Oxford University Press, 1989. See also for a comprehensive analysis J. Lampe, *Yugoslavia as History*, Cambridge, Cambridge University Press, 1996;

The articles of political and economic journals such as the works of a set of specialists (among the others B. Horvat, J. Lampe, J. Allcock, S. Woodward, J. Lydall, S. P. Ramet, S. Estrin, S. Bianchini) are the main sources for an analysis, throughout the decades, of the economic forces and trend that linked the Yugoslav self-management, the market socialism, the 1960s reform, the 1970s turmoil and the 1980s crisis to European and global political and economic history.

With regard to the post-socialist transition and neoliberal economic restructuring of Eastern and Southeastern countries and specifically of Croatia, the main sources of this work are, along with the scholar debate, the official documents of the European Union and in particular of the European Commission.

The Yugoslav history from its evolution and development during socialism to its demise and troubled European integration is a part of a broader, global economic and political movement.

CHAPTER I

*An alternative socialism: the Yugoslav Path
to Socialism from the Breakup with the
Soviet Union to the First Experiment of
Enterprises' Self- management*

Index of Chapter I: 1. From the Revolution to the Breakup with the Soviet Union: the Birth of the First Core of the Yugoslav Socialism; 1.1. The Political, Economic and Discursive Strategy of the Yugoslav Leadership in the Aftermath of the Schism with USSR; 1.2. The Yugoslav economic conditions during the Fifties and the role of western aids; 2. Enterprises' Self-management: a Brief Historical Survey of the Yugoslav Path; 2.1. Theory and Practice of the First “Formal” Phase of the Self-management ; 3. A first provisional conclusion on the self-management system as it was built until the changes of 1961 and the reform of mid-1960s

1. From the Revolution to the Breakup with the Soviet Union: the Birth of the First Core of Yugoslav Socialism

The socioeconomic model of the so called *second* Yugoslavia historically embodies a socialist model alternative to the Soviet's, this latter universally taken as the paradigm of the “realized socialism”⁵ – or unrealized, according to some authoritative economists.⁶

The main core of the Yugoslav socialist economic framework, that is the enterprises' self-management,⁷ arose in

5 The definition of “real existing socialism” (*real existender Sozialismus*) was introduced for the first time by Ulbricht in 1971. The definition was never officially adopted by the Soviet Union, while it was largely used in the West, becoming “realized socialism”. See A. Graziosi, *L'URSS dal trionfo al degrado. Storia dell'Unione Sovietica*, Bologna, Il Mulino, 2008, p. 384.

6 See P. M. Sweezy, C. Bettelheim, edited by Giorgio Riolo, *Il socialismo irrealizzato*, Editori Riuniti, Roma, 1992.

7 In this work the self-management is one of the key-issues through which I have analyzed the Yugoslav socialism. The history of Yugoslav socialism is deeply marked with its main “brand”, the self-management. However, the perspectives of the analysis are several. First, is taken into account the communist discursive strategy through which self-managed was introduced and at the same time the historical background related to the breakup with USSR. Then, the historical, economic and political perspectives are integrated perspectives. For every historical period, indeed, are first taken into account the relations between self-management

the aftermath of the breakup with the Soviet Union and the deterioration of the relations between Tito and Stalin. Since that moment, former Yugoslavia started to represent a dialectic pole, even in terms of “socialist imaginary”, in comparison with that of the USSR.

Several were the reasons that ignited the break-up between the two socialist leaders, but prior to enter in the analysis of these reasons, it must be pointed out that they occurred after a period in which the Yugoslav Communist Party (KPJ) was a trust executor of the doctrine and economic-political pattern known as “Stalinism”.⁸ To some extent, the First Five Year Plan (1947-1951) entailed a rigid Stalinist doctrine. In these respects, according to Bianchini, the dogmatism of KPJ derived from its “unfinished esteem” for USSR:

Il gruppo dirigente titoista si dichiarò subito per la dittatura del proletariato. Il suo dogmatismo traeva origine da una *stima smisurata* nei confronti dell'Unione

and Yugoslav macroeconomic conditions, through which I sought to analyze self-managed in relation to the economic trend and in relation to the economic reforms (in particular 1965 and 1976 reforms). Subsequently, the enterprises are analyzed in the social trend of Yugoslav society. In this respect, enterprises represent a fundamental analysis standpoint in relation to the social conflicts arose in Yugoslav society across mid-1960s and mid-1970s. The 1965 reform, as stated in the Introduction, is paradigmatic: the strengthening of market relations, the increase of the authority of managers, the increase of strikes are some of the social tendencies of the period considered in the multidisciplinary approach.

⁸ The concept of “Stalinism”, in this case, concerns in particular a rigid centralization of the economy. As reported by Enciclopedia Treccani delle Scienze Sociali, Stalinism can be conceived as «the activity of a single immense factory, led and managed by a center with a single global projecting direction». The definition can be consulted at the following link:

[http://www.treccani.it/enciclopedia/stalinismo_\(Enciclopedia_delle_Scienze_Sociali\)](http://www.treccani.it/enciclopedia/stalinismo_(Enciclopedia_delle_Scienze_Sociali))

Sovietica. In ampi strati della popolazione era diffuso perfino il mito – ma forse si dovrebbe dire l'arrogante illusione – di poter non solo imitare la Russia, ma addirittura di poter fare meglio di quest'ultima.⁹

The breakup with USSR is the keystone, as I will analyze in next paragraphs, to understand the Yugoslav development of a different socialist model: the so called *market socialism*.¹⁰ John Lampe noted that Yugoslavia, after the Tito-Stalin split, spent virtually all the postwar period until the collapse differentiating itself from Soviets and moving toward a new theory of decentralized socialism.¹¹

From the political perspective, after the war the partizans kept firmly in their hands the political and military power. The KPJ¹² during the last phase of the conflict and in the first post-war period followed a strong *realpolitik* discipline. As noted by Jože Pirjevec, i.e., the Tito's statements of the summer-autumn 1944 testified his obsessive attempt to assure both Yugoslavia and the foreign powers that partizans didn't want to

9 Bianchini, *La questione jugoslava*, Firenze, Giunti, 1996, p. 74. Translation: «The Titoist leading group was in favor of the proletariat dictatorship. Its dogmatism was linked to the unfinished esteem for the Soviet Union. Also among the population grew the belief that USSR could be even overcome».

10 On this theoretical pattern – the relation between market and socialism – see, among the others, Vacić (1986.87), Horvat (1972), Estrin (1991), Neal (1954), Gligorov (1981-82), Friedmann (1966), Flakierski (1989).

11 J. Lampe, *Yugoslavia as History. Twice there was a country*, Cambridge University Press, 1996, Cambridge, p. 229 – 230.

12 On this point Joze Pirjevec writes that «Il partito comunista, che si considerava l'avanguardia del proletariato, era in verità un organismo eterogeneo, guidato da un gruppo piuttosto ristretto di rivoluzionari di professione (120) che controllavano una base di origine più contadina che operaia». See Pirjevec, *Gli anni staliniani di Tito*, in *L'enigma Yugoslavo*, p. 289.

impose a Communist regime similar to the Soviet one. Hence, this attempt was directed to reassure both the Westerns and Stalin, who didn't agree to “revolutionary accelerations” in the Balkans.¹³

In the first post-war period, even though the KPJ emerged remarkably strengthened by the conflict and, at the same time, with a large consensus among the population (especially among young people), it decided to act – probably to have a broader range of political action – as an almost underground movement,¹⁴ imposing the secrecy to its members. Bianchini noted that the communists acted as a clandestine movement even if they had the leading role in the Popular Front: «La nascita, in agosto, del Fronte Popolare, come espressione di un'aggregazione monolitica di forze unite da un medesimo programma, consolidò il ruolo guida assunto dai comunisti, nonostante questi – *per ragioni non ancora chiarite* – agissero sulla scena politica come *un'organizzazione clandestina*: il loro partito non veniva mai nominato, né si conoscevano i membri del comitato centrale» [emphasis mine]¹⁵. Even the leadership of the Party refused to register it to the Ministry of

13 J. Pirjevec, *Gli anni staliniani di Tito*, p. 297-307. On the same point Adriano Guerra writes: «Stalin voleva che anche in Jugoslavia la lotta antifascista si svolgesse entro i confini del Fronte nazionale e patriottico, dai comunisti alla monarchia, senza proporsi obiettivi di trasformazione socialista». See *Prefazione*, in *Autogestione Jugoslava*, p. 13.

14 According to Pirjevec, it was almost illegal.

15 See Bianchini, *La questione jugoslava*, p. 75 – 76. Translation: «The born, in August, of the Popular Front as an aggregation of several forces unite in a common program strengthened the leading role of the communists, even if they acted – for unclear reasons – as an clandestine organization: the party was never mentioned, nor the names of the members of the central committee were known»,

Internal Affairs (differently from other parties).¹⁶

However, after the crisis of the coalition government in August 1945¹⁷, the Popular Front became the structure chosen for the elections. This hybrid political organization (born in 1945 out of the Popular liberation front¹⁸ and formed by the summit of eight different parties) was used by the KPJ as a broader structure to mobilize the masses.¹⁹ The elections for the Constituent assembly were largely won by the Front – also due to the inner divisions of the oppositions. The Front reached the 80% of the votes in the Federal Council and the 86% in the Council of Nationalities²⁰, while the oppositions

16 Similarly acted the OZNA, the typical secret police of those regimes in which there is a single Party doming the State. The KPJ, in fact, used the OZNA in the aftermath of the war in the absence of a jurisdictional framework to guarantee the rule of law. In particular, the OZNA was involved in the repression of collaborationists and entrepreneur middle and upper class. This class was dispossessed of its properties while nationalizing of industries and banks. The first member of Tito's inner circle designed to run the OZNA was Aleksandar Ranković.

17 In the Yalta agreements (1945) the influence on Yugoslavia was shared between Great Britain and USSR. The result was a coalition government, soon after the war, between Tito and Šubašić, the latter charged directly by King Petar, in exile in GB, to form a govern with the Marshall. The govern was formed by twenty members of AVNOJ (antifascist popular liberation front), three members of monarchic government and five members of prewar parties. The govern soon shipwrecked because of the power of Communists and the weakness of the oppositions. See Bianchini, *La questione jugoslava*, p. 73.

18 The AVNOJ, that is the Antifascist popular liberation front was born in 1942 and organized all the Yugoslav antifascist forces. The AVNOJ also claimed itself as a temporary parliament based on a federal structure, and prohibited to the King to turn back in the homeland. According to Bianchini «Le decisioni assunte a Jajce conobbero una eco tanto interna quanto internazionale di grande rilievo poiché di fatto delineavano un assetto post-bellico», see *La questione jugoslava*, p. 74.

19 Moreover, the Front was formed by national liberation committees which operated as cells of the future government. According to Grigov «later on it was this cadre and its experience that made it possible to set up the essentially new governmental and social foundations of a socialist community» (*The social and economic basis*, p. 3). Lampe noted that Popular Front had put forward candidates who were already KPJ members or had been approved by internal Communist decision. See *Yugoslavia as History*, p. 230.

20 Federal Council and Council of Nationalities formed the bicameral National Assembly. If the Federal Council was a unitary body, the latter was a federal body in which each republic had thirty representatives. Vojvodina and Kosovo, as

just the 9% and 11%.²¹

The wide victory led to the proclamation of the Federal People's Republic of Yugoslavia (SNRJ) on 31 January 1946 and to the adoption of a constitution entirely modeled on the Soviet one of 1936 (“en embarrassingly close copy”, according to Lampe²²). The constitution was mainly written by one of the most influential thinkers of *second* Yugoslavia, Edvard Kardelji. Similarly to that of the USSR, the constitution provided a strong central power and a rigid hierarchical party apparatus²³. But, unlike the Soviet chart, in the first draft the Yugoslav one did not mention the right of the Republics to secede, even if this right was foreseen in the final text.²⁴ Lampe stated that the greater religious freedom was the only difference from Soviet model.²⁵

From an economic point of view, Yugoslavia emerged from four years of continuous war, which provoked countless damages. The infrastructures, in particular the transport

autonomous regions of Serbia received twenty and fifteen representatives. See Lampe, *Yugoslavia as History*, p. 230 – 231.

21 See Bianchini, *La questione jugoslava*, p. 76.

22 J. Lampe, *Yugoslavia as History*, p. 229.

23 In relation to the Soviet influence, according to Lampe «the initial intent was to follow the Soviet model, where a hierarchical party apparatus controlled a fictional federation and pursued rapid development of heavy industry». See *Yugoslavia as History*, p. 229.

24 The Constitution, as a typical Chart of a State dominated by a single Party, kept the formal civilian liberties (such as: speech, association etc.) but did not foresee a control by Legislative power on Executive, neither the autonomy of the public administration from the Party. The judges were elected every two or four years (in the case of the Supreme court): so, they were submitted to the political power, which also used public prosecutors with an unlimited power to take part in the administration of the justice and every private public structure. For a survey on the Yugoslav Constitution, see Pirjevec, *Gli anni staliniani di Tito*, p. 299, 300.

25 Lampe, *Yugoslavia as History*, p. 230.

network, were almost entirely destroyed. The war cost to the Country 2 million people of dead and unborn.²⁶

According to John Lampe, about the 15% of prewar dwellings, the 40% of industrial structures and the 50% of livestock and agricultural machinery were destroyed or highly damaged²⁷.

However, already by 1947 the agricultural production reached the 90% of its 1936-39 level, while the industrial production even exceeded the level of 1939.

Along with the genuine contribution of Communist-organized youth brigades and the general support of the population to the Communist leadership, the loan of \$415 million in aid delivered by the United Nation Relief and Rehabilitation Agency (UNRRA) turned out to be essential for the Yugoslav economic recovery. About the half (\$237 millions) of these economic aids were used for shipments of food, clothing and medical supplies. The rest was used for equipments to rehabilitate agriculture, industry and the transport network.

As reported again by Lampe, the largest part of UNRRA deliveries (\$298 million, 72%) came from the United States²⁸. Before that Tito-Stalin split occurred, the US parliament did not appreciate the amount of aids delivered. The American Congressmen, indeed, thought that Yugoslav army used the aid

²⁶ Data in Lampe, *Yugoslavia as History*, p. 229.

²⁷ Lampe, *Yugoslavia as History*, p. 235

²⁸ Lampe, *Yugoslavia as History*, p. 236.

deliveries for its own use²⁹, while, on the contrary, the KPJ feared the “capitalist superpower” (definition by Lampe)³⁰.

The Soviet influence on Yugoslavia, on the other hand, in those years was dramatically strong. Hence, in the years after the reconstruction, the ties between Yugoslavia and Soviet Union seemed to be stainless. These two countries held economic agreements between them and with the other socialist satellites. These agreements were useful to the fulfillment of the Five Year Plan that Yugoslavia launched a year before the other socialist countries.

At the same time, the leadership of KPJ right after the 1945 imposed a large agricultural reform³¹ that freed the peasants from their debts, imposed nationalization and redistribution of lands, fixing to 25-30 hectares the maximum of private property of the land, and introduced a soviet-type agricultural system³² based on the General Agricultural Cooperatives³³ – imposed to peasants even by force. In this way, the Communist leadership sought to improve the agricultural production: big State farms and agricultural cooperatives had the task to modernize the production techniques. Anyway the KPJ project, as noted by Gaetano La Pira, soon shipwrecked

29 Lampe, *Yugoslavia as History*, p. 236. Lampe notes: «neither the American nor the Yugoslav governments appreciated the large US role»

30 Lampe, *Yugoslavia as History*, p. 236.

31 According to the Communist leadership, the main objects of the reform were: to guarantee the necessary surplus to maintain both a big army and an increasing number of industrial workers; to obtain more export earns.

32 A kind of Soviet *kolchoz* model.

33 See G. La Pira, *Agricoltura e autogestione*, in *L'Autogestione jugoslava*, p. 221-222.

because of the unskilled technical cadres and the scarce agricultural machinery.³⁴ Petranović noted that the reform had negative consequences on public health,³⁵ making vain the efforts done in the after-war period with a less radical reform carried on with the UNRRA aids.

The reform was fiercely opposed by peasant, leading to arrests and land confiscations. According to Pirjevec the collectivization met the passive resistance of the peasants that reacted with the diminution of the production. Pirjevec writes:

La collettivizzazione, talvolta anche forzata, della terra si scontrò con la resistenza passiva dei contadini, che si manifestò nella diminuzione della produzione, nella macellazione del bestiame, nell'evasione delle consegne obbligatorie di prodotti agricoli. Tra il 1949 e il 1950 la produzione del grano calò del 41% e la produzione media dei prodotti agricoli del 73% rispetto a quella degli anni prebellici.³⁶

34 La Pira writes: «A loro [the cooperatives, e. n.] spettava un ruolo pilota, quello di avviare la modernizzazione dei metodi di coltura: una vana speranza, considerando come la superficie a loro disposizione fosse spezzettata, la gestione affidata a quadri tecnici piuttosto incompetenti e scarsa l'attrezzatura di cui disponevano; le misure adottate furono quindi largamente insufficienti e comunque incapaci di soddisfare le esigenze della popolazione: di qui il razionamento dei consumi e l'imposta sui redditi agricoli»

35 Yugoslavia, was the country with the highest level of TBC and nervous diseases. On this point see B. Petranović, *Istorija Jugoslavije*, 1918-1978, Wien-München-Zürich-Innsbruck, 1978, p. 429, quoted in Pirjevec, *Gli anni staliniani di Tito*, p. 301, n. 17.

36 Pirjevec, *Aspetti del pensiero e della prassi economico-politica in Jugoslavia nel 1947-1948*, in *L'autogestione jugoslava*, p. 38. Translation: «The collectivization of the lands, carried out even by force, faced the passive resistance of the peasants that reacted with the diminution of the production, the killing of the animals, and the diminution of the deliveries of agricultural products. Between 1949 and 1950 the corn production decrease by 41% and the average production of agricultural

As mentioned before, the peasants reacted and many of them were arrested. After few months, in 1947, an amnesty was launched to let the harvest being collected.³⁷

The influence of the Soviet Union on the Yugoslav socialism reached the acme in the adoption of the first Five Year Plan; its major object was the transformation an agricultural country – as the prewar Yugoslavia was – in a high industrialized state.³⁸

According to Kiro Gligorov, in the aftermath of the conflict and right after the nationalization of the means of productions «the ruined condition of the country and its reconstruction required a high degree of centralization of governmental powers and authority in managing the economy»,³⁹ especially with regard to the political and economic need to strengthen the Federation and the central power in the light of the multinational nature of Yugoslavia.

Historically, the central planning is useful to endow a withdraw country of high technology. From an institutional point of view, the planning system was structured on a number of central and local bodies, that is a central commission (*Savezna planska komisjia*) and several smaller federal and

products by 73% with regard to the pre-war years».

37 Lampe, *Yugoslavia as History*, p. 240

38 In the USSR the main institution charged of the economic planning was the Gosplan, that is the Planning State Committee. Under the rule of Stalin, next to the Gosplan were introduced other two institutions charged of other plannings: the Gostekhnika (State committee charged for new high technologies introduction) and the Gosstab (State committee charged for material and technical providing). See Graziosi, *L'URSS dal trionfo al degrado*, p. 81.

39 K. Gligorov, *The social and economic basis*, p. 4

republican commissions. Moreover, in the bigger enterprises was created a specific planning sector (*planski sektor*), while in the smaller ones just a single planning department (*plansko odeljenje*) or a single planning responsible (*referent za plan*) was appointed. Eventually, specialized offices were created for every industry branch and in every People committee (the latter was the executive organ of the commune).⁴⁰

The central planning system was based on a general plan concerning the whole industrial and economic sector and on several smaller plans related to every economic sector, such as labor force, investments, labor productivity, distribution of industrial goods and financial funds. As noted by Brera “il sistema jugoslavo di quegli anni è modellato abbastanza fedelmente su quello sovietico”.⁴¹

So, this economic framework sustained the first Five Year Plan of 1947-1951.⁴² The Plan, in Tito's aims, had to follow the Soviet progresses in heavy industry and in agriculture, but it soon turned out to be clear that this progresses were out of reach in that short lapse of time and in those economic

40 For a general survey of the central planning system see P. Brera, *Pianificazione e lavoro associato*, in *L'autogestione jugoslava*, p. 196 – 197 – 198.

41 Brera, *Pianificazione e lavoro associato*, p. 197. Translation: «In those years the system was modeled on the soviet». Moreover, according to author the breakup between Yugoslavia and USSR caused a kind of “patriotic reaction” among workers. This reaction, paradoxically, limited the typical defects of Soviet economy, first of all the discouragement of workers themselves: «la motivazione patriottica della produzione viene infatti rafforzata dalla scomunica cominformista proprio negli anni in cui nei paesi occupati dai sovietici essa si affievolisce» (p. 197. Translation: the “patriotic motivation” that increased production was strengthened by the Cominform excommunication while in those years the production was decreasing in other socialist countries”.

42 Lampe, *Yugoslavia as History*, p. 240

conditions. On this point to Lampe maintained that «Yugoslavia's first, and by Soviet standards, last Five Years Plan was by all accounts a spectacular failure».⁴³

To complete the Five Year Plan, Tito removed Andrija Hebrang⁴⁴, head of the Economic Council and ministry of industry – who had several objections for such a Plan – replacing him with Boris Kidrič, member of the Slovenian Politburo, just returned from a “crash course” in economic planning in Moscow. Kidrič became the main responsible for the Plan and the regime's leading economist.⁴⁵

Pirjevec wrote that even the soviet economists in Yugoslavia expressed their doubts about the success of the Plan: «prima ancora dello scoppio del conflitto tra Tito e Stalin, del resto, I consiglieri economici russi in Jugoslavia espressero le loro perplessità sulla industrializzazione forzata [...] critiche queste che vennero riprese anche da due così autorevoli esponenti del Politburo com'erano Andrija Hebrang e Sreten Žujović».⁴⁶

The national income, in the proposals of Kidrič and of the other economists who worked to the Plan, had to double the level of 1939 by 1951. However «only the developed

43 Lampe, *Yugoslavia as History*, p. 238.

44 Tito already removed Hebrang, two years earlier, as head of Croatian Liberation Movement for “national tendencies”. See Lampe, *Yugoslavia as History*, p. 238.

45 Lampe, *Yugoslavia as History*. However already in 1951, in the aftermath of the breakup with the Soviet Union, the large Planning Commission was abolished and turned in a smaller institute. For a survey of the central planning changes see paragraph 2.1.

46 Pirjevec, *Aspetti del pensiero e della prassi economico-politica in Jugoslavia nel 1947-1948*, p. 35. Translation: «Prior to the breakup between Tito and Stalin, the Soviet economic experts in Yugoslavia were critic with the forced industrialization [...] Also Andrija Hebrang and Sreten Žujović criticized the plan».

industrial sectors of Slovenia, Croatia and Serbia came close to hitting their targets for 1947. Yugoslav statisticians subsequently deemed the 1947 data too unreliable to record in future yearbooks». ⁴⁷

As noted by Pirjevec, the Plan was useful to the Soviets to strengthen the economic ties with Yugoslavia, carrying on a “blackmail policy”:

Il piano quinquennale, con le sue megalomanie ed ingenuità, con la sua fede nel magico potere di un ordinamento economico e sociale rigidamente centralizzato era, per così dire, una trappola tesa dagli jugoslavi a Stalin. Esso infatti era concepito in maniera tale, da potere essere realizzato solo con l'appoggio dell'Unione Sovietica e del suo blocco. A Belgrado, sembra, nessuno si preoccupò di valutare se Mosca, interessata in primo luogo alla ricostruzione della propria economia, fosse disposta a fornire l'assistenza in macchinari, materie prime e specialisti che gli jugoslavi le assegnavano nel proprio piano. Furono così poste le basi per una *politica di ricatto* da parte di Stalin nei confronti della Jugoslavia, politica che questi non esitò ad usare [emphasis mine]. ⁴⁸

⁴⁷ Lampe, *Yugoslavia as History*, p. 239.

⁴⁸ Pirjevec, *Gli anni staliniani di Tito*, p. 301. Translation: «The Five Year Plan, so naïve and megalomaniac, with its excessive trust on the magic power of a social and economic framework highly centralize, was a trap set by the Yugoslavs to Stalin. Actually, the plan could be carried put just with the financial aid of the USSR. No-one, in Yugoslavia, evaluated if the Soviet Union could give the support of machinery, raw materials and experts that Yugoslav required. In this way, the

However, just the 5% of the credits promised by the Soviet Union, Hungary and Czechoslovakia actually reached Yugoslavia before the breakup of the 1948. Indeed, one of the reasons of the contrast with Stalin concerned the extent of the Plan and the resources assigned from USSR to Yugoslavia. Soon, the amount of the resources turned out to be too huge for the weak Soviet economy after the Second World War.⁴⁹

On the other hand, the causes of the breakup between Yugoslavia and Soviet Union were not confined just to the economic field and the subsequent planning difficulties. Rather, they were related to the foreign policy contrasts of the two Countries.

The contrasts emerged with the Jalta agreements (1945) which provided that the influence on the Balkan country had to be shared between Churchill and Stalin. Pirjevec pointed out that Yugoslavia became the “sacrificial lamb” to guarantee the Soviet empire:

Che da Stalin la Jugoslavia fosse considerata solo una pedina nel grande gioco in cui egli era impegnato per garantire la potenza dell'impero sovietico, divenne evidente già nell'ottobre del 1944, quando il dittatore si accordò con Churchill sulle rispettive sfere d'influenza

blackmail policy carried on by Stalin became possible and, indeed, the Soviet leader did not hesitate to use it».

49 Lampe, *Yugoslavia as History*, p. 241.

nell'Europa danubiano-balcanica, accettando la proposta di condominio britannico nel paese. L'accordo del 50% non rimase naturalmente celato a lungo agli jugoslavi, che fecero buon viso alla cattiva sorte⁵⁰

The contrasts between USSR and Yugoslavia were also grounded on Stalin's efforts to lead, as the center of the “communist world”, the domestic and foreign policy of all the other socialist allies. The aim of the Soviet leader contrasted with to the effort of Tito to keep a strong autonomy in foreign affairs.

According to Andrea Graziosi the behaviour of Tito in the foreign policy was one of the causes of the breakup:

Tito [...] imbaldanzito dalle vittorie, agiva come un primo della classe desideroso di seguire l'esempio del maestro ma dimentico di chiedergli il permesso⁵¹

The Yugoslav case, however, was quite different from all other socialist countries. Yugoslavia, indeed, was the only country in which the partizans won almost autonomously the war against Nazism and Fascism – even if with the Soviet and

50 Pirjevec, *Gli anni staliniani di Tito*, p. 301. Translation: «To Stalin, Yugoslavia was just a pawn useful to guarantee the power of the Soviet empire. This was clear by 1944, when the dictator made an agreement with Churchill on the respective influential spheres in the Danubian and Balkan region. Later on the Yugoslavs knew the agreement of “50%”».

51 See Graziosi, *L'URSS dal trionfo al degrado*, p. 57. Translation: «Tito, strengthened by the victories, acted independently from asking Stalin's permission».

Anglo-American military assistance.⁵²

Reinforced after the conflict, Yugoslav Communist leadership kept a defiant behaviour in the international relations, in contrast with Stalin's cautious realism. Actually, the USSR leader was substantially intentioned to follow the Jalta agreements.⁵³

In this context, another reason of mutual contrast broke out: the Yugoslav support to the Greek partizans, which threatened the agreement⁵⁴ between Stalin and Churchill. The Jalta agreement provided to left Greece to the West influence sphere, while the Soviet Union kept free hand in Romania and Bulgaria.

Moreover, along with the support to the partizan war, Tito aimed to deepen political relations with the countries of the Soviet Bloc independently from the USSR: in this respect, Stalin was worried about the relations that Yugoslavia held with Hungary, Romania, Poland and Albania (in this case with the aim of a reunification).

In the light of this historical juncture concerning the relations in the socialist world, the final cause of the breakup

52 See Bianchini, *La questione jugoslava*, p. 68. On this point Bianchini notes: «Tito accusava, e con ragione, i Sovietici di non impegnarsi a fondo nel sostegno alla lotta partigiana jugoslava che, invece, godeva di maggiore appoggio degli anglo-americani – Translation: Tito accused the Soviets to lack in the support of the Yugoslav partizan war, which received a stronger support by Anglo-Americans».

53 In the Yalta agreements the influence on Yugoslavia was shared between Great Britain and USSR. The result was a coalition government, soon after the war, between Tito and Šubašić, charged directly by King Petar, in exile in GB, to form a govern with Tito. The govern soon shipwrecked because of the power of Communists and the weakness of the oppositions.

54 Even this one signed in Malta.

between KPJ and USSR occurred when Tito tried to create a Balkan federation with Bulgaria.⁵⁵

Moreover, the Yugoslav Communist leadership reaffirmed several times its self-determination about foreign policy and the refusal that a single Country – USSR – would impose the international political direction to every other ally.

Pirjevec noted that «all'idea di uno Stato guida, a cui avrebbe dovuto essere soggetto ogni interesse particolare, gli jugoslavi opponevano quella di una società comunista strutturata in maniera più dinamica, in cui i singoli partiti e Stati avrebbero goduto di un'autonomia d'azione in armonia con le loro tradizioni, esperienze, necessità».⁵⁶

On 28th June 1948 the contrasts between the Countries were made official with the expulsion of the KPJ from the Cominform.

Since that crucial and, to some extent, foundational moment, Yugoslavia started its progressive detachment from the Soviet political and economic orthodoxy and hegemony. The economist Fred Warner Neal, in relation to the new political-economic path taken by Yugoslavia noted that the Communist

55 As noted by Bianchini, Stalin was scared of a Balkan federation with Tito leader of south-east area. On 29 January 1948 the Soviet newspaper *Pravda* attacked the Bulgarian leader Dimitrov for his statements about an imminent Balkan federation. In the aftermath, Stalin met Kardelj and Dimitrov in Moscow and proposed them a federation in which also Albania had to enter (according to Bianchini to increase regional tensions and to guarantee to USSR an influence on the area). The Yugoslavs rejected the proposal of Stalin and, in general, the project of the Federation shipwrecked. See *La questione jugoslava*, p. 86.

56 J. Pirjevec, *Gli anni staliniani di Tito*, p. 306 Translation: «The Yugoslavs resisted to the idea of a leading state. They fostered the idea of a more dynamic communist society, in which the parties and the states could carry on an autonomous action with regard to their traditions, experiences and necessities.»

leadership developed a “new outlook” in relation to Marxism and world generally:

Freed perforce from the necessity of conforming to Soviet practices and thought, the Yugoslav leaders developed a new outlook, not only on Communism in Yugoslavia and in the Soviet Union but on Marxism and the world generally. Out of it has evolved - and is still evolving a new theory of socialism, democracy, and capitalism, and a whole set of political and administrative practices designed to put the new theory into effect in Yugoslavia⁵⁷

1.1. The Political, Economic and Discursive Strategy of the Yugoslav Leadership in the Aftermath of the Schism with USSR

The 1948 was the year of the Yugoslav Communist Party's expulsion from Cominform. Since then, the Yugoslav leadership radically shifted away from the Soviet economic orthodoxy, that is with how much was economically done in the country until that moment.

The Yugoslav leadership, on one hand, found itself trapped in the discursive strategy of the Soviets: according to USSR leadership and its key allies, Yugoslavia simply left the socialist field. In this respect, the necessity of the Yugoslav

⁵⁷ F. W. Neal, *The reforms in Yugoslavia*, p. 228

leadership to come up with something which would relaunch its socialist model became a matter of life and death: self-management, then, became the main weapon against the Soviet accuses and the main element through which rejuvenating its socialist model.

It is in this historical juncture that self-management officially entered in the regime's lexicon. This model, along with other key ideas-concept as the *social* ownership of the means of productions and the critique to etatism and bureaucracy was a sort of pivotal element around which Yugoslavia re-established its own pathway to socialism.

The first brick of this new socialist fashion was the *Law on the workers' councils and self-managed enterprises*⁵⁸ (1950). The Communist leadership, with this law, sought to redefine at the same time the development model and its discursive strategy. As aforementioned in the Introduction (note 1), the response was at the same time a *progressive reaction*: progressive because actually the self-management aimed at increasing the direct participation of workers in the production or, in other words, to leave the production in the hands of direct producers themselves.

According to Marco Dogo by 1950 the Yugoslav economy shifted away from the USSR model that remarkably influenced

58 «Western scholarly celebrations of Yugoslav socialism usually made 1950 the specific date for this turn away from the agricultural collectivization and political factories, and toward workers' councils and self-managed enterprises» (Lampe, *Yugoslavia*, p. 250)

the first Five Year Plan. In this respect Dogo wrote that «attorno al 1950 si fondono in un complesso integrato di scelte un processo di emancipazione ideologica, lo svolgimento di una funzione imprenditoriale, la riconversione dello sviluppo istituzionale avviato nel quinquennio del c.d. “socialismo statalistico”». ⁵⁹

The Italian scholar interpreted the self-management as the choice of a national political elites to become autonomous from the imperialist rule of another one:

La svolta all'autogestione come espressione di autonomia di un'élite politica nazionale le cui credenziali non sono più soggette a revoca dall'estero⁶⁰

Hence, because of the international isolation by the socialist allies and due to the economic bloc raised by USSR, the Yugoslav Communist leadership was forced to shift toward another socialist model, searching for a different *socialist legitimacy*.

This effort was necessary to strengthen the political legitimation of the Yugoslav government after a proper excommunication by the head of the Communist world.

⁵⁹ Dogo, *Alle origini dell'autogestione*, in *L'Autogestione jugoslava*, p. 22. Translation: «Around 1950 occurred at the same time a process of ideological emancipation, the emergence of an entrepreneurial function and the conversion of the industrial development started with the Five Year Plan».

⁶⁰ Dogo, *Alle origini dell'Autogestione*, p. 23. Translation: «The shift toward self-management [was] the feature of a national political elites freed from the foreign influence»

Hence, in search of a new legitimization,⁶¹ the Yugoslav communist leadership created *ex nihilo* a public discourse concerning the self-management. So, the ideological dimension was the keystone for the construction of the Yugoslav propaganda's lexicon.

In these respects, the critique to the centralization and to the Soviet bureaucracy, such as the attempt to widen the social basis of the regime and the necessity to strengthen the consensus around the Party were as many issues of a broader discursive strategy fostered by the communist leadership to reinforce the Yugoslav socialist model. On the other hand, the Yugoslav leadership sought to reinforce its socialist fashion recalling the fundamentals of Marxism.

According to Neal «the new face of Yugoslavia is still entirely Marxist – but not Soviet – in its outlook. It is based on the general idea that Socialism as it developed in the Soviet Union is a definitive deviation from Marxism-Leninism».⁶²

Moreover, as written by Lampe «their [of Djilas and Kardelj, e. n.] strictly ideological argument proposed to “start creating Marx's free association of producers”».⁶³

61 In the aforementioned work by Marco Dogo the KPJ played a leading role in the turning-point toward a new revolutionary legitimacy for itself first and then for the State, but it is interesting too to follow the whole reconstruction of the progressive independence of KPJ from the Soviet ties. According to the scholar in the period during 1935 and 1937 «cominciano infatti a registrarsi nei dirigenti comunisti jugoslavi comportamenti indicativi di una lenta ma progressiva acquisizione di autonomia: dalla tradizione, remota e prossima, in quanto fattori di divisione; e dal condizionamento esterno, in un rapporto di costante tensione entro il quale il gruppo dirigente riduce però sistematicamente i margini d'incertezza ed acquista controllo sul proprio futuro». The quotation is in *Alle origini dell'autogestione*, p. 24

62 Neal, *The reforms in Yugoslavia*, p. 228

63 J. Lampe, *Yugoslavia as History*, p. 250.

From the point of view of the Yugoslav leadership, it is important to point out that the KPJ leadership did not speak about self-management as a model developed as a reaction after the split with the Soviets. In other words, the construction of this new kind of discourse – concerning: a. the decentralization; b. the critique of bureaucratic centralism and c. the self-management – was not circumscribed just to a dialectical negation of the Soviet model,⁶⁴ because it would have been a sort of diminution of their revolutionary efforts. In other words: the new model was not just a mere reaction.

The aim to find a stronger *historical* legitimation turned out to be essential. Recent history, indeed, became the source in which find the roots of self-management: partizan organizations, *ex. gr.*, were interpreted as forerunners of self-governed society. In this way, the historical background was simply bended in the direction of the new outlook of the regime.

The ideologue Edvard Kardelj talks about the self-management as an “genuine” issue of Yugoslav working class, and the contrast with Stalin became a consequence of the

64 According to Arnason «La dottrina ufficiale capovolse l'ordine dei fatti: la realtà storica era che un partito stalinista aveva diretto una rivoluzione e successivamente, in risposta ad una grave minaccia esterna, aveva sperimentato una democratizzazione parziale e controllata; questa congiuntura eccezionale veniva interpretata come la riscoperta delle direttrici classiche e universalmente valide della transizione dal capitalismo al socialismo: la “via jugoslava al socialismo” veniva identificata con la visione marxiana dell’“estinzione dello Stato”». See Arnason, *Prospettive e problemi del marxismo critico nell'Est europeo*, in Aa. Vv., *Storia del marxismo*, Torino, Einaudi, 1982, vol. IV, pp. 178-179. Quoted in Segatori, *Dall'autogestione solidale all'eterodirezione conflittuale, origine e sviluppo del “paradosso jugoslavo”*, in *L'enigma Jugoslavo*, p. 90

Soviet leader's opposition to self-management model:

[L'autogestione] non è nata come una conseguenza del nostro conflitto con Stalin ma è, al contrario, l'espressione delle aspirazioni elementari della nostra classe operaia e l'opera della sua rivoluzione. Anzi, proprio la resistenza opposta da Stalin a queste aspirazioni... è stato uno dei principali fattori del nostro conflitto con lui [even if] è evidente che la rottura finale con Stalin e con il dogmatismo staliniano ha spianato la strada ad un'affermazione sempre più completa dell'aspirazione elementare dei nostri lavoratori all'autogestione⁶⁵

This ideological masterpiece raised by one of the most influential Yugoslav thinkers shows how the communist leadership sought to furnish a legitimization to self-management presenting it, at the same time, as an original aspiration of domestic working class and as the leading cause that led to the split with Stalin *after his opposition*.⁶⁶ To some

65 E. Kardelj, *Les rapports économiques et politiques dans la société autogestionnaire socialiste*, in *Questions actuelles du socialisme*, n. 102, apr.-giu. 1971. The quotation is in F. Soglian, *Autogestione e non allineamento*, in *L'autogestione jugoslava*, p. 310. Translation: «[Self-management was not born as a consequence of our struggle with Stalin, but on the contrary it was a genuine aim of our working class and the product of its revolution. On the contrary, just the resistance of Stalin to these aspirations... was one of the main elements of our conflicts with him [even if] it's evident that the breakup with Stalin and with Stalinist dogmatism smoothed the difficulties in order to achieve the self-management».

66 Similarly Mijalko Todorović, SKJ executive secretary, who wrote: «Il conflitto con Stalin fu la conseguenza e non la causa, o l'occasione, della via autonoma jugoslava che conduceva necessariamente all'autogestione». See *L'autogestion – aspiration historique de la classe ouvrière*, in *Questionnaire actuelle du socialisme*,

extent, Kardelji inverted the plans of the discourse recurring creatively to the historical discourse. The recent past was the place in which he found the “real aspirations” of the Yugoslav working class to self-management.

In the effort to find an historical precedent, the National liberation committees and the Popular committees that acted during the war against Nazism and Fascism were re-interpreted as the cells of the future “social foundation of a socialist community”.⁶⁷

But was it real that self-management was an aspiration of the Yugoslav working class that justified *by itself* the breakup with Stalin? Did a disagreement about self-management play a central role in relation to the breakup with the Soviets? According to Lampe the ideological differences played no significant role, while «a raw struggle for political power in Yugoslavia lay at the bottom of the Tito-Stalin split». ⁶⁸ So, the ideology became a part of the conflict but *right after* the breakup with USSR.

Franco Soglian noted that the self-management acted as a defense against USSR and as the opening to Westerns:

L'autogestione, dunque, come duplice strumento di autodifesa (difesa attiva ed anzi aggressiva, in verità,

n.99, lug. - sett. 1970, p. 13. The quotation in F. Soglian, *Autogestione e non allineamento*, p. 310, n. 1.

67 See Gligorov, *The social and economic basis*, p. 3, and Soglian, *Autogestione e non allineamento*, p. 311

68 Lampe, *Yugoslavia as History*, p. 241.

come è sempre stato nello stile jugoslavo), sia nei confronti dell'interessata distorsione, da parte dell'Urss e dei suoi alleati, della rottura di Belgrado con Mosca, equiparata ad un vero e proprio tradimento della causa, sia nei riguardi degli iniziali dubbi occidentali circa l'effettiva consistenza del piano interno della svolta operata dalla Jugoslavia nel 1948⁶⁹

Similarly, Rusinow maintained that the Yugoslav experiment was born “of necessity, not of conviction”.⁷⁰ In relation to the attempt to find historical roots of the self-management in Yugoslav society, Dogo noted: «ricerche infruttuose compiute nel tentativo di rintracciare profonde radici storiche, di antedatate le origini di un orientamento vagamente *autogestivo* valorizzando figure, momenti e tratti specifici delle varie culture e tradizioni supposte latenti e riemergenti nella coscienza collettiva di un gruppo dirigente forzato a scegliere vie nuove». ⁷¹

69 F. Soglian, *Autogestione e non allineamento*, p. 312. Translation: «Hence, self-management was a double instrument of self-defence (even aggressive, as in Yugoslav style) both with respect to the distortion of the facts made by USSR and other allies in relation to the breakup – which became a betrayal of the socialist cause – and with respect to western, which had doubts about the domestic plan after 1948».

70 See D. Rusinow, *Understanding The Yugoslav Reforms*, p. 72. According to the author the main causes that concurred to the shift toward a new model were the isolation from the Soviet bloc and the economic blockade; consequent dependence on Western aid for survival; a need to broaden the domestic basis of consent in absence of foreign sponsorship; and a urgent *political and psychological need to criticize Soviet policies and institutions* [emphasys mine].

71 Dogo, *Alle origini dell'Autogestione*, p. 21. Translation: «Researches carried on to find historical precedents of self-management did not give appreciable fruits. The research of historical roots, such as backdating self-management or taking into account cultures, traditions etc. to find an anchor remained just an effort of the Yugoslav establishment forced to find new ways».

So, the breakup with USSR and the new international relations in the socialist world⁷² constituted at the same time the preconditions and the background in which the Yugoslav domestic changes, as self-managed model and decentralized socialism, should be put.⁷³

Moreover, was the Yugoslav working class aware of self-management possibility and did workers really push, directly or indirectly, the KPJ leadership toward a breakup with USSR?

We have to consider that the Yugoslav Communist Party ruled as an elite.⁷⁴ Indeed, the Yugoslav working class was not so numerous⁷⁵ and skilled⁷⁶, and it is not likely that before 1948 and during the war experimented or at least expressed the will to build such a model. According to McDonald *et al.* «the large majority of industrial workers have little tradition of industrial employment, tend to retain peasant values, and seasonally return to the land».⁷⁷

On the other hand, we have to consider that the Party had the complete hegemony in the discursive production. The

72 For a survey on this point see paragraph n. 1.

73 In *Yugoslavia as History*, John Lampe noted that the decentralized socialism was embodied in the 1953 constitution, “specifically intended to replace the Soviet-style constitution of 1946 (p. 229).

74 In the words of John Allcock: «I have suggested that it is more appropriate to conceptualise the upper stratum of post-war Yugoslav society as an elite rather than a class», See *Explaining Yugoslavia*, p. 201.

75 The peasants were the 80% of the population. See Dogo, *Alle origini dell'Autogestione*, p. 25-26

76 As written by Bilandžić «La classe operaia era relativamente poco numerosa e molto giovane. Una moderna classe operaia si veniva appena allora formando, principalmente dalle fila dei contadini». See *Drustveni razvoj socijalisticke Jugoslavije*, Zagreb, 1975. The quotation is in Dogo, *Alle origini dell'Autogestione*, note n. 7, p. 20.

77 McDonald *et al.*, *Yugoslavia. A country Study*, p. 411.

redefinition of the Yugoslav identity after the Cominform crisis passed through the action of the communist leadership, that pushed toward the construction of a new type of socialism based on a *national* and *historical* identity.⁷⁸

However, the KPJ brilliantly overcame a potentially devastating crisis, strengthening the inner relations in the Central Committee too.

The issue of the enterprises' self-management. Even if in the first years after the split with USSR they had just formal powers, the new role of the workers' collectives involved in the enterprises' management was announced as the real path toward socialism. According to Roberto Gatti this theme became a kind of “topos in sede ideologica, politica e programmatica”.⁷⁹

Roberto Segatori noted that the years in the aftermath of the Tito–Stalin split were the incubation period of the Yugoslav political (and economic, and social) identity.⁸⁰ According to the author, the international autonomy from USSR, the attempt to shift from the administrative centralism to the decentralization and the problem of the theoretical and practical overcoming of the *state* ownership of the means of production were the three

78 As Dogo put it «senza ridurre la portata reale, in quei primi anni, della scelta dell'autogestione a una mera invenzione ideologico-propagandistica, va però tenuto presente che si è trattato di un processo anche contraddittorio e comunque *lento*». See *Alle origini dell'Autogestione*, p. 31.

79 R. Gatti, *Marxismo e politica nell'ideologia e nella prassi del socialismo jugoslavo*, in *L'enigma jugoslavo*, p. 322

80 On this point see Segatori, *Dall'Autogestione solidale all'eterodirezione conflittuale*, p. 89.

elements that concurred to characterize Yugoslav identity⁸¹

Tito himself affirmed that «con il trasferimento delle fabbriche e delle imprese nelle mani degli operai» was carried out «il primo e principale atto sulla via dell'estinzione dello Stato, cioè della estinzione della sua funzione nell'economia e della contemporanea affermazione della democrazia socialista nella produzione e, con ciò stesso, nella società»⁸²

Even the question of the extinction of the State – central them in the Marxist theory – became one of the most discussed issues: the critique, as usual in that period, was addressed again to the liberticide Soviet bureaucracy. Therefore, in the light of a more orthodox interpretation of Marxist theory, the self-management was publicly interpreted as the attempt to overcome the historical division between State and civil society.

Among the fundamental issues raised by the YCP in these years there was also the question of the *social*⁸³ property of the means of production rather than *state* ownership. The discursive device is clear: if the state ownership led to a

81 Pattern developed by Segatori, *Dall'Autogestione solidale all'eterodirezione conflittuale*, p. 89.

82 The quotation is in Gatti, *Marxismo e politica*, p. 330. Translation: «With the pass of the enterprises and firms to workers [was carried out] the first and main effort toward the state extinction, that is the extinction of the function of the state in the economy. In the mean time, the socialist democracy was establishing in the field of the production and so in the whole society».

83 The word *social* instead of *state* about the production means' property acquire a special meaning in the lexicon of Yugoslav propaganda, as another way to distinguish, even in this field, the two types of socialist property. Of course, the first mean that the property belonged to the whole society, while the latter – even if just *de facto* - just to the State bureaucracy.

bureaucratic hypertrophy⁸⁴, on the contrary the social ownership, foreseen in 1953 Constitution,⁸⁵ was a guarantee that the direct producers had the real property of the means without any state and bureaucratic mediation.

In this respect, the social ownership of the means of production soon became another central theme: «the socially owned means of production and income are the material basis of self-management and of the dominant position of the worker in the self-management socialist society».⁸⁶ The thrust was put on the differences with the Soviet system, seen «as nothing more than a form of state capitalism, in which the place of the former exploiting class is now taken by the state bureaucracy».⁸⁷ Following the definition that Estrin gives of the social ownership, it was a kind of “non-ownership”, in which «workers in each enterprise are permitted to appropriate the surplus normally allocated to owners and to make accumulation decisions, but retain no individual or marketable rights over the assets».⁸⁸

⁸⁴Of course related to the Soviet model

⁸⁵ See M. Ganino, *A partire dal basso. Autogestione e “comunità locali” in Jugoslavia*, in *L'enigma jugoslavo*, p. 103.

⁸⁶ Gligorov, *The social and economic basis*, p. 5. The author adds some lines after: «since the means of production are socially owned the right to exercise control over them entails the obligation and responsibility to preserve their integrity and renew them through simple or extended reproduction» , (p. 7).

⁸⁷ Neal, *The reforms in Yugoslavia*, p. 229

⁸⁸ Estrin, *The case of Self-Managing*, p. 189

Before entering in the specific analysis of the self-management Yugoslav system, it's necessary to sketch out a short picture of the macroeconomic conditions in the 1950s and in the early 1960s, with respect to the role of western and US loans.

Thanks to those aids, indeed, the Federation reached its spectacular growth and became materially feasible to shift away from the Soviet imperialist rule.⁸⁹

But, at the same time, the role of the financial ties with western countries and international financial institution is fundamental in other respects. If indeed, on one hand, the capital borrowing guaranteed the growth through an high ratio of public investment, on the other hand it “tied Yugoslavia hand and foot” (words of J. Lampe) to the international financial institutions as IMF. In this respect, Susan Woodward pointed out that the accesses that Yugoslavia received since the 1950s guaranteed its independence but, at the same time, in particular throughout the 1980s, allowed the international financial organizations to impose a fatal austerity therapy⁹⁰.

89 According again to Lampe: “[the American aid] facilitated the primary features of the new Yugoslav road to socialism – the decentralization of continued Communist political control over industry”, *Yugoslavia*, p. 251.

90 S. Woodward, *Balkan Tragedy: Chaos and Dissolution after the Cold War*, p. 45.

1.2. The Yugoslav Economic Trend during the 1950s. The Role of Western Financial Loans

“Keep Tito afloat”⁹¹: the phrase of the Britain Foreign Minister Ernest Bevin perfectly exemplifies the new approach of western chancelleries toward Yugoslavia after the breakup with USSR. Indeed, after the Federation's shifting away from the Soviets – even if its socialist model was not called into question but even enforced – the need of financial capitals⁹² became such a compelling problem to the point that the Federation came close to westerns, USA *in primis*. The role of western and US economic assistance became a key-issue in the Yugoslav concrete possibilities to survive.

The western aids ignited important effects on Yugoslav economy. The analysis of the international financial aids, e.g., helps us understanding several economic choices taken by the Federation.⁹³

After the *Faustian bargain* – in the words of S. Woodward – was signed, the influence of the western countries and financial institutions became remarkable during all Yugoslav economic history⁹⁴. To such an extent that the US influence

91 See. Lampe, *Yugoslavia*, p. 254 e Pirjevec, *Gli anni staliniani di Tito*, p. 307, who after reporting Bevin's phrase adds: “[la frase] venne fatta propria anche dai governi di Washington, Parigi e Roma, nella convinzione che fosse meglio avere al potere a Belgrado un Tito comunista sì, ma ribelle, piuttosto che una marionetta sovietica”.

92 Necessary to keep on sustaining the economic growth.

93 The interactions between the macro-level (*ex. gr.* the macroeconomic trends and the international economic conditions, as the oil crisis of 1973 and 1979) are usually linked to the concrete political-economic choices (as the enterprises' self-management) of the Federation.

94 Therefore, I have analyzed the economic causes of the breakup of the country and also the role of the in the chapter II, par. V.

pushed Tito's Politburo to abandon the collectivist agricultural framework, devalue the dinar and restructuring the economic framework favoring an export-oriented economy.⁹⁵

However, on the other hand, thanks to those aid Yugoslav leadership pursued the reduction of agricultural sector in favor of heavy industry⁹⁶ and, in general, the public investment could sustain the high growth of the country. As regard to the US, the political-ideological element played a pivotal role in supporting Yugoslavia, embodying the occasion to hook up a socialist country in open contrast with the USSR.

However, the aids had several effects for both parties: while they materially allowed Yugoslavia to build “its own socialism” and to resist to the Soviet siege, on the other hand enabled the westerns and in particular the US to loose – for the first time – the ties of a Communist regime with the Soviet bloc. According to Lampe, after the international isolation and the economic bloc “the [Yugoslav] regime's capacity to survive became an essentially economic question”.⁹⁷

The first months in the aftermath of the breakup with USSR were characterized by a cautious wait-and-see approach: US intended to check if the split with the Soviets was definitive⁹⁸, while the Yugoslavs were suspicious about the capitalist

95 Lampe, *Yugoslavia as History*, p. 253-256.

96 Curiously, thanks to western capitals could emerge all that “socialist orthodoxy” in pursuing a policy of heavy industry growth.

97 Lampe, *Yugoslavia as History*, p. 253-256.

98 In general, the deliveries' extent followed the Congressmen perception of the Yugoslav-Soviet relations – Lampe, *Yugoslavia as History*, p. 269.

superpower and feared a Soviet reaction too.

Hence, the first aids came in Yugoslavia in 1951 and consisted in agricultural shipments: two severe droughts and the failure of the Agricultural Cooperatives obliged KPJ to seek aids to US government, which – on the examples of Greece and after Tito's decision to withdraw the country's support to Greek partizans – conceded a total of \$32 millions, in addition to the shipments provided by West Europe under the Marshall Plan (\$100 million in 1951 and 1952).⁹⁹ The US, at the same time, provided also several military aids. They favored, e.g., the complete transition of Yugoslav army from guerrilla-type to regular army, completing the work started by Soviets – at the same time, the few number of US soldiers reached the object of discouraging a Soviet invasion.¹⁰⁰

The US financial assistance to Yugoslavia started to flow in 1950 and ended in the early 1960s. Later on, the country had access to a \$4 billion loans provided by World Bank and to other grants provided by IMF.

Moreover, thanks to the about \$620 million US grants, Yugoslavia could cut down the current deficit account in the years 1950-1953 and cover, with those aids, the 88% of the deficit per year¹⁰¹ (for a statistical survey on US aids see Table 1.1).

The analysis on the foreign aids and of the Western

⁹⁹ Lampe, *Yugoslavia as History*, p. 253.

¹⁰⁰ Lampe, *Yugoslavia as History*, p. 255.

¹⁰¹ Lampe, *Yugoslavia as History*, p. 255.

economic assistance concerns not only the survey of the international diplomatic relations of Yugoslavia, but overall frames the economic growth of the Federation, faster than that of most part of other countries in the world, even of those of the Soviet bloc.

Between 1953 and 1961, the industrial production increased of 12.7%; the industrial wages rose by 6.2% per year, while the prices, administratively controlled, just of 3%; the employment in the industry and services (the social sector) grew from 1.8 to 3.2 million workers, while the unemployment decreased to 200,000 (1961); the industrial growth led to an increase of export of 11% in the period 1953-1961; finished manufactures increased from the 7% of 1952 to 43% of 1962 (for the data on Yugoslav growth until 1970 see Table 1.2). Bianchini noted that in 1953 the industrial production exceeded by 11% the 1952 level, in 1954 by 14%, in 1955 by 10%, in 1956 by 17%. In this three-year period the Federation reached an average growth of 45,8% in relation to the level of 1956.¹⁰²

According to Estrin «the growth was particularly impressive between 1952 and 1979, averaging around 6 percent *per annum* with *per capita* consumption rising by almost 4.5 percent»¹⁰³. The Yugoslav economic growth, anyway, had always been quite unbalanced, in particular for the high ratio

¹⁰² See Bianchini, *La questione jugoslavia*, p. 99.

¹⁰³ Estrin, *Yugoslavia: The case of Self-managing*, p. 190.

of public investments (30%) supported by external borrowings. In the period between 1953 and 1960 the balance of payments was in a controlled deficit of 3% per year, while inflation started to grow since late 1950s.

Why Yugoslavia could reach such growth levels? First of all because the share of investments – as any other socialist country – remained steadily remarkably high (*ex. gr.* up to 35% in the two-years period of 1957 and 1959). Later on Tito's regime, on one hand, sought to decrease the public investment level, which in turn involved an increase of foreign debt, and on the other hand sought to favor consumption and agricultural investments.

Tables:

Table 1.1. US aid to Yugoslavia, 1949-1967 (US \$)

	<u>Marshall Plan</u> <u>1949 – 1952</u>	<u>Mutual</u> <u>Security Act</u> <u>1953 – 1961</u>	<u>Foreign</u> <u>Assistance Act</u> <u>1962 – 1967</u>
I. Economic assistance: total	186.8	1,038	536.4
Grants	186.8	617	91.9
Loans		422	444.5
A. Aid and predecessor	124.4	454	12.5
- Grants	124.4	625	12.1
- Loans		189	0.4
- Security Supplemental Assistance	(109.2)	(321.2)	(10.7)
B. Food for peace (PL 480)	24.8	585	523.9
Grants	24.8	352	79.8
Loans		233	444.1
C. Other economic assistance	37.6		
II. Military Assistance: total	310	412	1.8
III. Total economic and military assistance	496.8	1,450	538.2
Loans		1,422	445.9
Grants		1,028	92.3

Source: John Lampe, Russell o. Prickett, *Ljubisa Adamović, Yugoslav-American Economic Relations since World Wor II* (Duke University Press, Durham, NC, 1990), p. 70. Adapted by John Lampe, *Yugoslavia as History*, p. 271

Table 1.2. Macroeconomic growth, 1952-1970 (annual change in percent)

	1952-60	1961-65	1965-70	1952-70
Real GDP	06.7	6.2	4.8	6
Manufacturing and mining	12.3	10.7	6.1	10.1
Construction	4.9	9.5	4.7	6.1
Consumption	4.8	4.7	6.3	5.2
Real person income	1.3	9	5.9	7
Exports	12.5	12	8.2	11.1
Imports	8.4	8.3	11.7	9.8
Gross fixed investment in (%)	9.7	7.5	6.3	8.2
Type of investment (in %)				
Economic	77.6	67.1	60.1	63.6
Non economic	22.4	32.9	39.9	36.4
Sector (% of total)				
Manufacturing and mining	36.7(a);	25.2	23.3	
Agriculture	26.7(b)	11.7	9.7	
	11.7(a);			
	16.4(b)			

(a) 1952-1956; (b) 1957-1960 – Source: Vinod Dubey et. al., *Yugoslavia: Development with Decentralization*, The John Hopkins University Press, Baltimore, MD, 1975, 54-60, 385-86. Adapted by J. Lampe, *Yugoslavia as History*, p. 275

2. Enterprises' Self-management: a Brief Historical Survey of the Yugoslav Path

From an historical point of view, the movement of Yugoslav socialism had not been a straightforward process. On the contrary, it had been an historical process marked by fundamental achievements, remarkable discontinuities and contradictions.

Self-management was the keystone around which the development of Yugoslav socialist system turned. The first law that foresaw the new model was the *Law on the Management of State Economic Enterprises and Higher Economic Associations by Work Collectives*, (27 June 1950).¹⁰⁴ Bianchini noted that along with the Law there was a parallel process of de-burocratization of state apparatus with a reduction of public employees.¹⁰⁵

According to the collective work by Mc Donald *et al.*, *Yugoslavia. A country study* «the system of workers' self-management developed gradually after 1950 and became operative in all branches of the socialist sector of economic activity»¹⁰⁶ but just «at the Sixth Party Congress in November 1952, workers' self management became part of the official “Yugoslavia road” and was interpreted as representing the transition from “state ownership” to ownership of the whole

¹⁰⁴ See Lampe, *Yugoslavia as History*, p. 252

¹⁰⁵ See Bianchini, *La questione jugoslava*, p. 99.

¹⁰⁶ See Mc Donald *et al.*, *Yugoslavia. A county study*, p. 421

social community».¹⁰⁷

Following the historical stages identified by Flakierski, the Yugoslav general historical economic process passed through two main phases: the first phase was characterized by central planning and the influence of the USSR; the second phase was marked by the enterprises' self-management and the opening of Yugoslav economy to foreign capitals and markets.¹⁰⁸ Moreover, this second period can be divided in other two sub-periods: the first period (from 1952 to 1961), defined as “formal self-management period”,¹⁰⁹ was anchored to a first decentralizing effort in which, however, the state kept a strong control in economy. The second period was characterized by several reforms which definitely reinforced the enterprises' self-management. The main reformist periods were 1965 and 1974-1976.

Similar the approach of Saul Estrin, who, after having pointed out the main reformist periods (1952, 1965, 1974 and mid-1980s), divided the reforms occurred before mid-1980s in two phases: «the shift from central planning towards markets between 1952 and 1974, and then a move from markets to towards bureaucracy and bargaining as the primary mode of resource allocation between 1974 and mid-1980s»¹¹⁰

107 Mc Donald *et al.*, *Yugoslavia. A county study*, p. 417-418.

108 Flakierski, *The economic system and Income Distribution in Yugoslavia*, p. 3 – 21. The second phase started in the two years period of 1950-1952 and lasted until the end of second Yugoslavia but with significant contradictions and discontinuities, which I will analyze specifically in next paragraphs and chapters.

109 The definition is by Flakierski, *The Economic System*, p.4

110 Estrin, *Yugoslavia: the case of self-mangement*, p. 188.

Furthermore, as regard to the central planning criteria, Brus individuates three phases: a. the central planning phase, until the start of 1950s; b. the phase of the introduction of the self-management and of the first decentralization attempt, in which the State kept a certain number of key-decisions, in particular in the regulation of resources' distribution and investments (until 1956); c. the phase of the expansion of the attributions of self-management in the sphere of distribution of surplus realized. Also in this phase the State kept the control in the investment decisions (until 1965).¹¹¹

Different, but not incomparable, the historical periods identified by Lampe in *Yugoslavia as History*. The author divided the Yugoslav economic and social process in two stages: the Yugoslav ascending, from 1954 to 1967, and the Yugoslav descending, from 1968 to 1988.¹¹²

According to the majority of scholars, a real shift toward the overcoming of a rigid centralized planning was introduced just in early 1960s.

On this point, for example, Friedmann noted that the self-management, until 1961, was mainly an attempt to develop the participation of workers in the production, while the enterprises were still subject to state control.¹¹³

The enterprises were subjected to the Federation control in

¹¹¹ Brus, *Il funzionamento di un'economia socialista*, in Aa. Vv., *Storia del marxismo*, Torino, Einaudi, 1982, Vol. IV, p. 232. Quoted in Segatori, *Dall'Autogestione solidale all'eterodirezione conflittuale*, p. 89.

¹¹² Lampe, *Yugoslavia as History*, p. 260 - 324

¹¹³ Cfr. Friedmann, *cit*, p. 630 e ss.

order to the general economic planning and to the central control about both the foreign exchanges and the import regulations. In other words, until the very start of 1960s the state kept the dominion about the investment decisions.

In the the next paragraphs the “formal phase” of self-management, the reforms of 1965 and 1974/76 and, eventually, the 1980s crisis will be privileged subjects of analysis – while in the last part of this work the survey concerns the transition from socialism to neoliberal capitalism.

For each period I will take into account the international economic and financial conditions and the political and economic trends to frame the context in which the self-management developed.

2.1. Theory and Practice of the First “Formal Phase” of Self-management

Self-management is the specimen of Yugoslav socialist model. It was developed first in theory, as an ideological element and a set of discursive practices; then, self-management became a concrete element of Yugoslav economic structure. Even in the first phase of its introduction¹¹⁴ the propellant effort of moving away from the Soviet Union had some important consequences¹¹⁵.

114 According to the majority of scholars and looking to the main historical periods drawn in the previous paragraph, the first phase lasted from 1950 to approximately 1961- even if the main reform came in 1965.

115 However, every political and economic process of such an entity needs long

First of all: why the definition “formal phase”? The title is taken from the aforementioned work of Flakierski, who pointed out that «up until 1961 state control was still quite substantial in the field of income distribution» and just by «1961 outside direct interference in all aspects of enterprise income distribution had been formally abolished».¹¹⁶

From a theoretical point of view, the object of self-management is the management of production by the enterprises' workers.¹¹⁷ Horvat maintained that in the socialist self-government «every individual can and should participate in making decisions and in that way look after his own interests for himself. Since he has take care of his own interests, he must be a member of the workers' council in order to protect those interests. Hence he joins the workers' council».¹¹⁸

According to Friedmann the concept of self-management involved the «economic democracy at enterprise level, with the direct participation of all members of the enterprise in decision making».¹¹⁹

In broader terms, following the pattern of Neal, the Communist leadership sought to: a. decentralize state control

period to develop: the changes toward new system are never immediate; moreover, the pass from the ideological-theoretical plan to its practical application has often contrasting tendencies.

116 See Flakierski, *The economic system*, p. 7 and 8. The parameter used by the Author was the income distribution, that is a privilege perspective to analyse the effective role of the workers in the enterprise.

117 See Mc Donald *et al.*, *Yugoslavia. A country study*, p. 411

118 B. Horvat, *Two Widespred Ideological Deviations in Contemporary Yugoslav Society*, *Eastern European Economics*, vol. 23, No. 1 (Autumn) 1984, p. 47.

119 Friedmann, *Freedom and Planning*, p. 630.

on industry and planning; b. create workers' collectives in each factory with an authoritative voice in management; c. give to these newly workers' organs direct representation in the government at all levels; d. decentralize many government functions.¹²⁰ As noted by Estrin, the workers collectives were the keystone of the new system:

The cardinal principle was that employees had to have a key role in the decision-making structures of their enterprises. Precise arrangements have varied from period to period, but the main instrument for employee influence has been the Workers' Council which, even in the late 1950s, was given the authority to appoint managers (from a predetermined selection list at the time) to fix internal pay structures; to determine recruitment procedures; and to allocate the enterprise surplus between wages and investment.¹²¹

As stated above in the text, self-management was introduced by 1950 with the *Law on the Management of State Economic Enterprises and Higher Economic Associations by Work Collectives*¹²². The Law provided that enterprises were managed by workers' collective, which elected a workers'

120 Neal, *The reforms in Yugoslavia*, p. 230. Continuing on a theoretical pattern, even according to Estrin the first changes toward decentralization introduced in 1952 foresaw «direct horizontal relations between more autonomous enterprises through a regulated market». See *Yugoslavia: the case of self-management*, p. 188

121 Estrin, *Yugoslavia, the case of self-management*, p. 188

122 Some excerpts of the Law can be found at the following link:

<http://www.marxists.org/subject/yugoslavia/self-management/1950/06/x01.htm>

council to represent them¹²³ by «universal, equal and direct voting»¹²⁴. The workers' council was elected for one year.

In relation to the rights and duties of the workers' council, the Law foresaw that the council “had full authority to decide”, and specifically: a. to approve basic plans and final accounts of the enterprise; b. to take decisions on the management of the enterprise and fulfillment of the economic plans; c. to elect, recall and change the management board of the enterprise or individual members; d. to set the rules of the enterprise, with the approval of the management board of the higher economic association, or of the competent state organs; e. to discuss reports on the work of the management board handmade decisions on, and approve of, its work; f. to discuss the various measures of the management board and make decisions on them; g. to distribute that part of the accumulation remaining at the disposal of the enterprise, that is, of the working collective.¹²⁵

Then, the council elected an executive committee involved in daily operations: the management board. The management

123 On this point see also: Mc Donald *et al.*, *Yugoslavia. A country study*, p. 421. This pattern was applied in enterprises with more than thirty employees, while in smaller firms all workers formed the council; in general, a firm may had 7 to 100 members, according to its dimensions. The workers elected the council members from a list prepared an electoral commission appointed by the workers.

124 Law on the management of State economy, section “Workers' council of enterprise”. Excerpts available at the link suggested into note 72.

125 Law on the management of State economy, section “Workers' council of enterprise”. Excerpts available at the link suggested into note 72. On this point see also Neal, *The reforms in Yugoslavia*, (p. 230), according to the council had several rights and duties, among wich: a. to elect, as we have seen few lines before, the management board; to draw up over-all basic plans for operation of the factory and to supervise the balance sheet of enterprise; to distribute that portion of the factory's profits left after new investment, taxes, and other expenditures.

was composed by members of the workers' council. It daily worked with the plant director, which was elected by a public competition sponsored by the council.¹²⁶ The Law provided that «the management board of the economic enterprise, or of the higher economic associations, runs the business and is responsible to the workers' council and competent state organ, while the management board of the enterprise is also responsible to the management board of the higher economic association.

The management board operates on the basis of the Law and other regulations, the decisions of the workers' council and other directives from the competent state organs»¹²⁷.

The management board was composed per three-fourths by workers “directly engaged in production”, while other members were chosen from technical personnel, engineers and employees.

In relation to the competences of the management board endowed it with the authority to: draw up the proposals for the basic plan of the enterprise; draw up the monthly operative plans; see that the enterprise is being run correctly; draw up a plan for the international organization of the enterprise and a proposal for the classification of jobs; draw up a draft of rules and regulations in the enterprise and takes measures for increasing work discipline; make decisions on the appointment

¹²⁶ Mc Donald *at al.*, *Yugoslavia. A country study*, p. 422.

¹²⁷ Law on the management of State economy, section “Fundamental Principles”. Excerpts available at the link suggested into note 72.

of employees to executive positions in the enterprise; make decisions on complaints lodged by workers and employees on hiring and firing and the internal distribution of jobs; undertake measures for the advancement of the enterprise's production and especially to improve production, increase the productivity of labor, lower the costs of production, improve the quality of products, economize, reduce waste; decide questions of work norms in the enterprise; makes decisions on proposals made by worker-inventors; take measures for the technical advancement of workers and employees and for their correct assignment to jobs; see to the correct application of regulations on labor relations in the enterprise, on pay, wages, and the promotion of workers and employees, on work protection and social insurance, and improvement of the living conditions of the workers and employees in the enterprise; discusses and adopts a plan for annual vacations; takes measures for the protection and correct utilization of state property managed by the enterprise, and to eliminate and prevent damage, waste and other forms of unconscientious behavior toward state property. The management board of an enterprise was responsible for the fulfillment of the plan and the correct running of the enterprise.¹²⁸

To conclude this specific survey of the first self-management system as provided by 1950s Law, the last analysis element is the director, that is the apex of the

¹²⁸ See Law on the management of State economy, section "Management board".

enterprise. The director – an *ex officio* board member who directly and strictly worked with the management – was selected by advertised public competitions sponsored by the workers' collective.¹²⁹

According to the law, the director had the authority to organize the production process in the enterprise, to control the fulfillment of the plan and the management of the enterprise, adhering to the regulations set up by management board. The director was directly linked to the economic planning and with the general economic aims set up by Federal organs. He had the authority to conclude agreements¹³⁰ and the power to hire workers and took decisions on notice given to workers and employees, while the workers and employees themselves had the right to appeal to the management board, whose word was definitive as regard to the decision about notices.

The director represented the enterprise before state organs and in legal matters. He had the authority to undertake measures for the fulfillment of the plan and for the management of the enterprise.¹³¹ According to McDonald *et al.*, the «real power within the enterprise rests with the director and his staff».¹³²

Eventually, the workers' council, the management board and

¹²⁹ See Mc Donald et al., *Yugoslavia. A country study*, p. 422.

¹³⁰ According to the text of the Law “an agreement is valid when is signed by the director”.

¹³¹ To analyse the whole Law text see the Law on the management of State economy, section “Enterprise Director”.

¹³² See Mc Donald et al., *Yugoslavia. A country study*, p. 422.

the director were reproduced at an higher level, that is the Higher Economic Association, which gathered all the factories of an entire industry.¹³³

In the Higher Economic Association the director was appointed by the Presidium of the Federal Assembly of Yugoslavia, by the presidium of the national assemble of a people's republic or by people's committee.¹³⁴ The role of the organs of the Higher Economic Association were related to the management of wide economic operations concerning an industry branch.

The large quotation of the *Law on the Management of State Economic Enterprises and Higher Economic Associations by Work Collectives* is a starting point to analyze the introduction of self-management in the very start of 1950s.

At the same time, the issue of the central planning – a fundamental bulwark in every orthodox socialist economy – is another important key element to have a complete frame of the gradual pass to a different socialist model.¹³⁵

As regards to the effective role of the planning in relation to the self-management, theoretically it had «to establish those

¹³³ On this point see also Neal, *The reforms in Yugoslavia*, 231.

¹³⁴ See the Law on the management of State economy, section “Workers' council, management board and Director of Higher Economic Association”.

¹³⁵ For a brief survey on Soviet planning system see note n. 19.

conditions of work and income-earning which cannot be foreseen from a narrow perspective»¹³⁶, that is the single enterprise perspective.

Therefore, if in the years of the first Five Years Plan the Soviet model of central planning had a strong influence on Yugoslav economy, after the expulsion of KPJ from Cominform even the central planning was modified.

The ideological elements played once again a key role in the redefinition of Yugoslav economic framework. In these respects, Kardelj argued that the self-management was not compatible with a rigid central planning which would push the worker to be a “state wage earner”¹³⁷:

Non c'è bisogno di dimostrare che una obbligatorietà del piano concepita in questi termini non solo significherebbe annullare l'autogestione, cioè ricacciare il lavoratore nelle condizioni di *salariato dello stato*, ma costituirebbe anche un danno economico [...] se la prassi sociale non dovesse offrire al lavoratore la possibilità, nel lavoro e nella creazione liberi, di correggere gli errori e di correggerli con soluzioni razionali, questi si moltiplicherebbero, e la realizzazione degli obiettivi di un piano siffatto si scontrerebbe con le leggi economiche oggettive¹³⁸

¹³⁶ Gligorov, *The social and economic basis*, p. 9

¹³⁷ Of course, the critique was addressed to the Soviet-type planning, based on the regulation of every economic aspect: how, what, when, where, what which prices etc. producing and investing.

¹³⁸ E. Kardelj, *Il sistema della pianificazione autogestiva (le discussioni di Brioni)*,

Moreover, from the discursive strategy point of view, as happened for self-management – *ex. gr.* the *social property* of the means of production rather than the state property –, also the new approach to the planning system saw the emergence of new words: along with self-management and social ownership of the means of production, the planning was now defined *global*. Even the institutions' names were changed, passing from the *planske komisije* to the new *zavodi za privredno planiranje*, that is *Economic planning board*. These new institutions were charged of preparing the planning projects.

The law that introduced the new model was the *Law on Planned Management*,¹³⁹ which partially redefined the role of the central planning. As highlighted by Lampe:

The large Planning Commission in Belgrade had already been abolished. It would now become a small institute charged with preparing a Five Years Plan pared to twenty pages of broad guidelines. These guidelines could only estimate the proportions that the new General Investment Fund might allocate to the various sectors of the economy through National Bank. Bargaining of its

Belgrado, 1976. Quoted in P. Brera, *Pianificazione e lavoro associato*, p. 199. Translation: «There is no need to demonstrate that such a central planning would mean to cancel self management and to render the worker a merely state wage-earner. It would also be an economic damage [...] if in the practice the worker would not have the possibility to correct in the working process and rationally the errors, the errors themselves would multiply and the realization of such a plan would contrast with the objective economic rules»

¹³⁹ Law promulgated on December 1951.

funds did indeed shift to the local level, but *not to the new enterprises' or their workers' councils* [...] The power to bargain for investment funds passed by 1952 to a reduced number of local committees [emphasis mine].¹⁴⁰

The differences between the “central” and “global” planning were mainly based on the fact that, in the latter case, just few general elements were fixed by central institutions, mainly grounded on macroeconomic elements related to general economic choices as the general investment decisions – fundamental in a socialist economy: by 1952 the 80% of investments were decided by central planning institutes¹⁴¹ – or the prices and monetary policy.

On this point, according to Neal «under the new planning set-up, state economic planning on the national level is limited to fixing “basic proportions”. These “basic proportions” involve in the main over-all production goals of basic materials, over-all investment in various economic branches, minimum wages, tax rates, and over-all federal revenue. Initiative in detailed plans is now lodged with the republic governments, the industry-wide, worker-elected management organs, and in some cases individual factory units».¹⁴²

The new planning system introduced some relevant changes

¹⁴⁰ Lampe, *Yugoslavia as History*, p. 252.

¹⁴¹ See. P. Brera, *Pianificazione e lavoro associato*, p. 201.

¹⁴² Neal, *The reforms in Yugoslavia*, p. 232.

in the whole Yugoslav economic system: first of all, the planning objectives were no longer compulsories. Then, the market role was increased: enterprises had their own goals – even if harmonized with the general economic goals – and they had even the possibility to plan autonomously the production, the exchange, the workers' wages. Moreover, the prices' control was replaced with a more flexible procedure: the prices¹⁴³ were kept as “partially free” indicator of social needs.¹⁴⁴

However, as noted by Flakierski, “until 1961 state control was quite substantial in the field of income distribution”¹⁴⁵: just in 1957, with the First Congress of Workers' Councils (1957) – in which workers demanded more freedom of income distribution and full control over the net income – occurred “event signaling the advent of serious changes”¹⁴⁶, that is the reform of 1961, by which the determination of income distribution was entrusted entirely to the workers' collectives,

143 The prices in Marxist theory have to be gradually overcome. In Soviet economy prices were fixed by the State.

144 Point developed by P. Brera, *Pianificazione e lavoro associato*, p. 201.

145 See Flakierski, *The economic system*, p. 7, in which the Author analyze the income distribution system. Specifically, after 1952 the income distribution system worked in this way: by central planning institutions was established a parameter for every branch of industry concerning the harmonization of wages/profit in relation to the global enterprises income. The parameter was used to calculate an average ratio of wage/profit. Moreover, the difference between gross income and planned wage was defined the accumulation and funds (AF), that is a kind of expected gross income. Then, the gross income – labeled as rate of accumulation and fund – was divided by planned wage fund (an average wage for every industry's branch multiplied for the number of employed). As highlighted by the Author, the accumulation and fund ratio differed from branch to branch of every industry: this started to increase wages differences and unequal conditions, especially regionally based.

146 See Flakierski, *The economic system*, p. 7.

whit a 15% flat tax on the personal income above the minimum wage fixed by the State.

Next to the first attempt to increase the workers' role in the enterprises giving them a voice in determining the management, even the central planning was subjected to a redefinition in favor of new relations between the macro and micro level¹⁴⁷, giving to the latter more powers in bargaining the financial funds – even if this power was neither given to workers' councils nor self-managed enterprises – in a general attempt to increase gradually the economic democracy.¹⁴⁸

3. A First Provisional Conclusion on the Self-management System Until the Changes of 1961 and the Reform of mid-1960s

The breakup with the Soviets ignited a process of differentiation mainly entailed by the enterprises' self-management; this model was experimented throughout the 1950s and implemented from 1960s onward with several reforms.

The self-management, on the other hand, must be related to a broader context marked by new general ideological

147 On this point Flakierski efficaciously sums up the question: «The detailed central planning of production was gradually reduced in favor of strategic planning of basic proportions. The relation between the macro plans and the micro plans was made more flexible. Enterprises were given more autonomy». See *The economic system*, p. 5

148 See P. Brera, *Pianificazione e lavoro associato*, p. 198.

orientations of Yugoslav communist elites and, at the same time, by an international political situation characterized by Tito's defiant foreign policy.

The early 1950s were the turning-point of the future development of the Yugoslav model. The new discursive strategy introduced by the communist leadership had in the decentralization, de-bureaucratization and democratization some of its main discursive devices, and the enterprises' self-management were the keystone of the new model.

In relation to the macroeconomic growth, until 1961 the Yugoslav economy reached a spectacular growth that made possible the development of the Yugoslav path to socialism.¹⁴⁹ Indeed, the possibility to move away from the Soviet model was first of all *materially* possible: the economic growth was the precondition to overcome the *limits of the possible*.

However, the importance of first phase of self-management system, under a closer survey, should not be stressed too much. First of all because, even in the light of an effort to decentralize some administrative and economic functions with the reduction of the central planning, the state kept the leading role in the investment decisions and income distribution (at least until 1961–1965). Furthermore, SFRJ remained a political system ruled by a single Party, which had the dominion of the public discourse. In relation to this aspect

¹⁴⁹ Lampe writes that “Yugoslavia's economy grew at a faster pace from 1953 until 1961 than most others in the world, including those of the Soviet bloc”. See *Yugoslavia as History*, p. 272.

Brera wrote that «il clima politico [of those years, *e. n.*] in molti casi riduce la libertà di espressione e quindi la discussione non si sviluppa del tutto apertamente o viene tagliata corta»¹⁵⁰.

Moreover, in the enterprises' management the workers had an effective role especially in “high personal matters” such as pay scales, bonuses, vacations and housing¹⁵¹. The real power in decision-making, as clearly emerges from the read of the *Law on the Management of State Economic Enterprises and Higher Economic Associations by Work Collectives* remained in the hands of the director and his staff. This trend was also related to workers' lack of familiarity in management problems.¹⁵²

So, if the decentralization of the rigid central State control and the creation of workers' collectives in every firm – the workers' councils – with a first consult function¹⁵³ was an unquestionable and almost unique effort in the direction of improving democracy in the workplace, the split between

150 See P. Brera, *Pianificazione e lavoro associato*, p. 198. Translation: «The political conditions [of those years] reduced the free debate. For this reason, the reduction of the freedom of speech lead to an incomplete or false debate».

151 See Mc Donald *et al.*, *Yugoslavia. A country study*, p. 422-423-424. In this direction also Estrin, who writes that «the bulk of decisions were guided by management, with workers particularly involved over questions of welfare, employment and pay», see *Yugoslavia: the case of self-managing*, p. 189.

152 In general, according to Mc Donald *et al.*, workers' self-management reached better results in medium-sized enterprises involved in less technical operations, in which the workers' collectives had an effective voice in decision-making, while it was less useful in highly technical firms (such as engineering), in which there was a bigger division between management and workers. Moreover, the participation of workers in decision-making was least in backward areas and in enterprises with newly recruited labor force. See *Yugoslavia. A country study*, p. 423 – 424.

153 See Lampe, *Yugoslavia as history*, p. 252.

management cadres and workers was a phenomenon that later marked the Yugoslav experience – leading in the next two decades to bitter social conflicts.

Furthermore, other contrasting tendencies, positive and negative at same time, appeared in these years, as the push in the direction of an export oriented economy, phenomenon linked to the pressure of Western governments, US *in primis*; the diminishing of the egalitarian trend, with trade unions demanding «skill differential to be increased» and the actual increasing of wages differentials among workers and regions;¹⁵⁴ unemployment¹⁵⁵, linked with the reduction of the bureaucracy sector and the increasing of a market-oriented economy – even with the hiring of workers.¹⁵⁶

On the other hand, from a political point of view, those first political institutions composed by workers were given a direct representation in every government level: in 1953 were adopted laws on the self-management workers' rights. The producers' Councils were integrated in every republican and federal ambit.¹⁵⁷

Moreover, the Constitution of 1953, along with self-management, provided an institutional framework close to establish a direct and participatory democracy: workers had a

154 Flakierski, *The economic System*, p. 4 – 5.

155 Unemployment is a phenomenon that, according to socialist theory, do not appear in a socialist-type economy.

156 On this point see J. Malačič, *Unemployment in Yugoslavia from 1952 to 1975*, *Eastern European Economics*, Vol. 17, No. 4, Summ. 1979, p. 88 – 89.

157 See Segatori, *Dall'autogestione solidale all'eterodirezione conflittuale*, p. 90, and Neal, *The reforms in Yugoslavia*, p. 232 – 236

direct (both federal and republican) representation in the government through the creation of Producers Councils, and the new Parliament (named People's Assembly), shared in two houses, was formed by the Federal Council and Council of Producers, which had special rights in the economic matters. This one was indeed elected by workers, artisans and peasants in cooperatives.¹⁵⁸

Therefore, if self-management was the lexicon of workers' direct participation in the production, even the public administration, through the Constitution of 1953¹⁵⁹ was involved in a general attempt to increase the “de-powering”¹⁶⁰ of the State while empowering the “people self-government”. The cell of self-government was the Commune, which according to Ganino:

I Comuni sono ora in grado di porsi attivamente al centro del sistema da due punti di vista. Innanzitutto essi [...] vedono nei propri confini servizi pubblici e attività produttive diversificate, non più solo agricole ma anche commerciali, artigianali e persino industriali. Il Comune assume il ruolo di coordinare tali realtà, a loro volta organizzate con margini di autonomia propri

¹⁵⁸ Neal, *The reforms in Yugoslavia*, p. 233.

¹⁵⁹ Even the Constitution of 1953 felt the effect of the Tito-Stalin split. According to Lampe «the various drawbacks of the Soviet model, plus the desire to repudiate it publicly, still pushed Tito's Politburo toward a new theory of decentralized socialism. Specifically intended to replace the Soviet-style constitution of 1946, the 1953 constitution embodied the new theory [...] its principal effect was to endow local Communist-led committees». See *Yugoslavia as History*, p. 231-232.

¹⁶⁰ Definition by Edvard Kardelji.

dell'autogestione [...] il Comune, in conclusione, diventa il punto unificatore delle realtà viventi nei suoi confini. Dato tutto questo, esso si presenta ai cittadini come il riferimento statale a livello locale¹⁶¹

Hence, these years were rich of changes: freed from the Soviet model while experiencing an intense economic growth, the SFRJ could develop its own ideological, economic, political and social framework. In this respect, the ideological-discursive level and the material-concrete level were strictly tied one-another: just the analysis of these – often controversial – elements together¹⁶² can frame the conditions and the “limits of the possible” of *second* Yugoslavia historical process.

161 Ganino, *A partire dal basso*, p. 103. Translation: «Now the communes are at the center of the institutional system from two point of view: first of all [...] they deal with public services and different activities, not just in the agricultural field but as regard to commerce, handcrafting and industry. The commune has the authority to coordinate these activities, which in turn have autonomous functions related to the self-management [...] To conclude, the commune is the center of the activities carried on on its territory, and its the state representation at local level».

162 Also in regard to the Yugoslav non-aligned position during the Cold War

CHAPTER II

1961 – 1991: From Triumph to Tragedy

Index of Chapter II: 1. The Yugoslav Political and Economic Conditions in Early 1960s and the “Little” Reform of 1961; 2. The Reform of 1965; 2.1. New rules for Enterprises: Income and Taxes in the Light of Market Regulations; 2.2. Market-socialism in the light of 1960s Reform: Prices, Banking System, Foreign trade, Foreign Direct Investments; 2.3. The Reform of 1965 and the Phenomenons of Unemployment, “Work Stoppages” and Increasing Income Differentials; 2.5. The 1965 Reform and its Effects on Self-managed Enterprises; 3. Between 1960s and 1970s: the relation between the 1965 Reform and the new Rising Social Conflicts arose among Technocracy, Bureaucracy and Working Class. The Issues of Nationalism and Nationalist crisis of 1971; 4. Yugoslav Socioeconomic and Political Conditions in 1970s; 4.1. Authorities Responses to Sociopolitical Crisis and Economic Changes; 4.2 The Third and Last Shape of Self-management: Oour, Ro, Sour, and Their Function in the Self-governed Society; 5. Toward the Break-up: the 1980s Crisis; 5.1 The Cure Succeeded, the Patient Died. A Last Overview on the Self-management System in the Age of the Austerity and an Explaining Pattern about the Fall of the Communists' Cultural and Political Hegemony and the Victory of the Nationalist and Ethnic Issues

1. The Yugoslav Political and Economic Conditions in the Early 1960s . The “Little” Reform of 1961

The early Sixties are a turning point in the Yugoslav socialist movement. Deep changes involved the entire Yugoslav society and the Federation demonstrated again its character of socialist laboratory. The strengthening of market relations – with the development of the so called *market-socialism* – as well as the improvement of tourism and emigration were some of the main features of those years. Changes were not just confined to the economic field: a more liberal conception – supported by Tito – of economic activities

gained the political hegemony within the League of Communists. The Five Year Plans of late 1950s and early 1960s determined keen political and economic debates, especially as regard to Five Year Plans of 1957-61 and 1961-65.

The positive economic trend and the economic growth of 1950s continued also in the 1960s, but several recessive trends took place, provoking an higher degree of economic and financial instability. Hence, some negative tendencies (already occurred in late 1950s) increased: regional imbalance, unemployment, inflation, foreign deficit on current account – tendencies that marked the country until the breakup.

The Gross National Product (GDP) during the period 1952-1960 grew of 9.8% per annum, while throughout 1960-1968 the increase was of 6.8%. The industrial output grew, in the two periods considered, of 13.4% and of 7.9%. However, the major decline was registered in employment rates, which decreased from an average rate of 6.9% in 1952-1960 to an average rate of 2.4% in 1960-1968¹⁶³. These data are reported in the next table (2.1), which is related to the three main economic periods of our socialist state: a. central planning, 1946-1952; b. decentralization, 1952-1960; c. self-government, 1960-1968.

¹⁶³ The causes of the increase of unemployment in 1960s will be analyzed in the paragraph 2.3 with the specific data for each republic.

Table 2.1. Growth of the Yugoslav Economy 1946-1968

	Central planning 1946-1952	Decentralization 1952-1960	Self-government 1960-1968
Gross National Product	2.3	9.8	6.8
Industrial Output	12.9	13.4	7.9
Agricultural Output	-3.1	8.9	2.1
Export of Commodities	-3.1	11.7	7
Import of Commodities	3.6	9.7	7
Employment	8.3	6.9	6.4

Source: *Statistical Yearbooks of Yugoslavia*. See B. Horvat, *Yugoslav Economic Policy in the Post-War Period: Problems, Ideas, Institutional Developments*, in *The American Economic Review*, Vol. 61, No. 3, Part 2, 1971, p. 116.

The 1960s were characterized by two reforms: the “little” reform of 1961 and the main reform of 1965.

The “little” reform advanced some of the changes carried out with the reform of 1965, and consisted in several acts introduced across the Five Years Plan of 1961-1965. As John Lampe put it «the new Five Years Plan for 1961-65 therefore contained a series of reforms intended to bring market pressures to bear on industrial enterprises without changing the socialist structure of their management».¹⁶⁴ Similarly, Branko Horvat asserted that «in 1961 three radical reforms were carried out. In order to increase the efficiency of the market organization and to improve the quality of goods produced, the hitherto virtually closed economy was to be made more susceptible to the influences of world market».¹⁶⁵ Hence, the

¹⁶⁴ J. Lampe, *Yugoslavia as History*, p. 280.

¹⁶⁵ B. Horvat, *Yugoslav Economic Policy in the Post-War Period: Problems, Ideas,*

reform established the liberalization of the prices of goods and services and the foreign trade (replacing the multiple exchange rate system with a custom tariff), reformed the credit system and the fiscal policy increasing the autonomy of the enterprises, and eventually introduced the first devaluation of dinar.¹⁶⁶ The “little” reform provoked immediately several effects as the increase of prices up to about 30% (the rate of inflation by 1964 boosted of 10%) and the increase of unemployment rates. At the same time, the rate of growth of the industrial output was reduced to one half as regard to the 1960 level. Import soared while export did not follow the expectations and faced the stagnation. Wages increases were not linked to productivity.¹⁶⁷

However, the failure of the “little” reform did not stop the “liberal” movement. The great reform of 1965, one of the most important of the entire Yugoslav socialist history, sought to limit the negative impact of the tendencies arose in early 1960s¹⁶⁸.

The League of Communists, on the other hand, reflected the contrasts which were arising in the society, in particular from the regional imbalance: the growth of economic disparities provoked the eruption of a conflict between representatives of

Institutional Developments, p. 82.

166 B. Horvat, *Yugoslav Economic Policy in the Post-War Period: Problems, Ideas, Institutional Developments*, p. 82.

167 B. Horvat, *Yugoslav Economic Policy in the Post-War Period: Problems, Ideas, Institutional Developments*, p. 82.

168 For the analysis of the 1965 reform see paragraph 2.

the republics over the allocation of resources. The national interest of the 6 republics and 2 autonomous regions became the main issue that the League of Communists had to deal with between 1960s and early 1970s.

The regional imbalance increased with the economic changes introduced across the 1965 reform. Although the economic growth experienced by Yugoslavia in the 1950s improved the living standards for the majority of the population, actually it increased the disparities between the developed republics of Croatia, Slovenia and Serbia and the less developed ones as Montenegro, Macedonia and the province of Kosovo.

As noted by Lampe in relation to these economic data «Slovenia's per capita income was three times that of Kosovo in 1950 and *five times* by 1960. If, however, even if Yugoslavia's overall investments in fixed assets relative to Gross Material Product (goods minus services) equals 100 for the period 1952-60, the ratio of Macedonia, Montenegro, and Kosovo was 126 and for the three developed republics, *just 92*» [emphasis mine].¹⁶⁹

The differentials of the share of the overall investments explain the animosity of the following debate in the League of Communist and the rising of regional politics and even the reforms of mid-1960s.

Indeed, Slovenian and Croatian economists fought against

¹⁶⁹ J. Lampe, *Yugoslavia as History*, p. 276.

the central planning institutes to strengthen the authority of the republics to manage the economic surplus produced. The constitution of 1963, as Lampe puts it, «attempted to isolate separate republic or ethnic interests».¹⁷⁰ With the constitution of 1974 this trend was definitely institutionalized, and republics became almost sovereign states.¹⁷¹

Although Tito tried, between 1962 and 1963, to reintroduce a renewed centralization¹⁷², the “liberal” movement, demanding decentralization and further market-oriented reforms (also helped by bad economic news) took definitely the upper hand; the debate in the Communist League, hence, was not only nationally oriented. Two different visions of society and economy fought each other in that period. As noted by Stefano Bianchini, in these years two opposite tendencies arose: centralist and orthodox, expressed by Ranković; *liberal*, guided by Bakarić, who wanted to increase the powers of the republics and enterprises in managing the economic surplus:

Da un lato, le correnti centraliste e più ortodosse, guidate da Ranković, operarono per rafforzare il carattere unitario dello Stato, proponendo solo marginali correzioni all'autogestione: dall'altro, le tendenze più aperte, guidate dal croato Vladimir Bakarić, volevano

¹⁷⁰ J. Lampe, *Yugoslavia as History*, p. 280.

¹⁷¹ For an analysis of 1974 constitution and of 1970s changes see paragraph 4 and followings.

¹⁷² «A regulatory campaign against private enterprise closed down a large number of small repair shops and craftsmen, but customer complaints forced their reopening», Lampe, p. 279.

accrescere i margini di autonomia delle imprese e delle repubbliche, nonché varare riforme più radicali in tema di mercato.¹⁷³

Lampe noted that the years from 1963 to 1966 witnessed the “most intensive political debate over economic reform in the history of the second Yugoslavia”.¹⁷⁴ Although neither the socialist framework nor the self-management were called into question, the economists of Slovenia and Croatia, allied with liberal Serbian and Macedonian colleagues, pushed toward the introduction of impersonal market rules. According to Dennis Rusinow, while conservative Communists sought to stop decentralization and pro-market reforms for a return to central control over key sectors, liberal economists argued that the main problem of Yugoslav development was the state control.¹⁷⁵

The debate over reforms, and especially over market-oriented reforms witnessed that Yugoslavia experimented a much greater freedom of speech than any other socialist State. Even though the League of Communists remained the only Yugoslav party, the resistance of some important party leaders

173 S. Bianchini, *La questione Jugoslava*, p. 104. Translation: «On one hand, the centralist and orthodox tendencies, guided by Ranković, sought to strength the centralist and unitary character of the state, fostering just few corrections to the self-management system: on the other hand, open tendencies – led by the Croat Bakarić – arose, trying to foster more autonomy for enterprises and republics and to strength market mechanisms».

174 J. Lampe, *Yugoslavia as History*, p. 279.

175 D. Rusinow, *Understanding Yugoslav reforms*, The World Today, Vol. 23, No. 2 (Feb., 1967), p. 76.

of the League against market reforms was partially defeated.¹⁷⁶ Rusinow asserted that, given the fact that the effective participation of multiple voices in a debate is the main difference between “open” and “closed” societies, “the Titoist system appears to have crossed a major watershed”.¹⁷⁷

From a closer economic perspective, in early 1960s three economic tendencies weakened the efficiency of enterprises and the economic growth:

First. As in the Soviet economy, enterprises were too large (62% of labor force was employed in enterprises with more than 4000 workers). This led to problems and inefficiency to the management. Unlike the USSR, however, the enterprises could dismiss workers: by 1962 unemployment in social sector arose to 7.3 percent.¹⁷⁸

Second. Many enterprises managers were appointed by communal councils for their merits in partizan movement, and many of them were unprepared to manage a firm. According to Lampe they were «easily tempted to divide retained earnings as bonuses with their workers' council rather than invest them in improvement». ¹⁷⁹

Third. Only the 43% of earnings (1959) stayed in the enterprises. This element will be one of the major object of the

¹⁷⁶ As noted by Lampe Tito changed his mind toward market reforms after an attempt to increase centralization and strengthen socialism. See *Yugoslavia as History*, p. 279-280.

¹⁷⁷ D. Rusinow, *Understanding Yugoslav reforms*, p. 71.

¹⁷⁸ Data in Lampe, *Yugoslavia as History*, p. 275.

¹⁷⁹ J. Lampe, *Yugoslavia as History*, p. 277,

“little” reform of 1961 and especially of that of 1965, which brought the income left to enterprises to 70%.¹⁸⁰

The problem concerned especially the increase of discrepancies between real wages and labor productivity: from 1958 the firsts grew faster than the second.¹⁸¹ Horvat concluded that, if until 1961 personal incomes were efficiently controlled and so they were quite stable, when controls were abolished occurred a cost-push inflation – given the lower growth of labor productivity.¹⁸²

Along with the decline of enterprises efficiency and the appearance of first inflationary pressures, some other negative elements previously veiled by the economic growth in those years definitely arose, i. e. overextended consumer credit (with the increase of demands and prices),¹⁸³ the smaller harvest of 1960 and the increase of the amount of short-term credits, especially from the US, with the effect of a huge deficit of current account.

Stella Margold sketched out the financial situation of Yugoslavia before the reform of mid-1960s. According to the author, the “country was soaking up funds like a sponge”:

President Tito depended on our [the US] aid, estimated at \$2 billion, of which two-thirds was in grant, and the

180 J. Lampe, *Yugoslavia as History*, p. 277,

181 B. Horvat, *Yugoslav Economic Policy in the Post-War Period: Problems, Ideas, Institutional Developments*, p. 116.

182 B. Horvat, *Yugoslav Economic Policy*, p. 112.

183 S. Margold, *Yugoslavia's new Economic Reforms*, American Journal of Economics and Sociology, Vol. 26, No. 1 (Jan., 1967), p. 65.

aid of the World Bank, the International Monetary Fund and private Western bankers to keep his treasury in balance. Meanwhile his country was soaking up funds like a sponge. It was getting more heavily in debt, and there were no prospects for paying off the loans that were coming due.¹⁸⁴

Margold argued that the 1965 reform mainly depended on the financial situation and on the insolvency that threatened Yugoslavia to get bankrupt.

Prior to enter in the 1965 reform analysis, it should be stressed the role of the first market-oriented changes introduced with the Five Years Plan of 1961-1965, which «contained a series of reforms intended to bring market pressures».¹⁸⁵

As already analyzed in the first chapter, according to Flakierski «up until 1961 state control was still quite substantial in the field of income distribution».¹⁸⁶ In his work on the income distribution in Yugoslavia, Flakierski asserted that just in 1961 the state intervention on enterprises income distribution was formally abolished, leaving to enterprises more freedom in managing incomes and fixed assets. After that moment the federal government established only a minimum

¹⁸⁴ S. Margold, *Yugoslavia's new Economic Reforms*, p. 66.

¹⁸⁵ Definition by J. Lampe, *Yugoslavia as History*, p. 278.

¹⁸⁶ H. Flakierski, *The Economic system and Income Distribution in Yugoslavia*, p. 7.

wage.¹⁸⁷ On the same point, Lampe noted that now the enterprise director and the workers' council were authorized to include wages in the net income they could dispose of. Along with this change, also the taxation system was modified: instead of a taxation based on a progressive scale, the federation introduced a flat tax, with the effect of leaving a higher income share in the disposition of enterprises: the flat tax rate was a 15% on any income above the minimum personal income fixed by government.¹⁸⁸

From 1955 the bank system passed from one single bank, the Yugoslav National Bank of Belgrade, to 388 communal bank. As noted by John Lampe, in 1961 they dispensed nearly twice the credit provided two years before.¹⁸⁹ Of course, this led to inflationary pressures, with the effect of an increasing of 30% of the cost of living and 10% of industrial prices.¹⁹⁰

According to Horvat, until 1961 this banking system was inefficient because of both National Bank offices and communal banks:

National Bank offices were inefficient, unimaginative, engaged in distributing the planned increase in credits and executing the decision of head office. Communal banks fell under the complete control of local authorities which often made it impossible to conduct a sound

187 H. Flakierski, *The Economic system*, p. 8.

188 H. Flakierski, *The Economic system*, p. 8.

189 J. Lampe, *Yugoslavia as History*, p. 278.

190 J. Lampe, *Yugoslavia as History*, p. 278.

business policy of profitable and safe investments¹⁹¹

The analysis of Horvat dealt also with the type of banking and monetary policy practiced in Yugoslavia: until 1961 was kept the difference between “fixed assets” and “working capital financing”, that is between a part linked to fixed assets and a fluctuating part linked to working capital and based on short-term credits.¹⁹²

The difference between “fixed assets” and “working capital financing” was functional to a *soviet type* economy in which heavy industry and rigid central planning were the keystone of the economic system, but it wasn't suitable for market-oriented economies as Yugoslav was becoming. Horvat noted that «in 1961 enterprises consolidated the fixed capital and working capital funds into one single business fund. Thus all liquid assets could be used both for current payments and for capital formation». ¹⁹³

Nevertheless, the new credit system soon ignited to another serious problem: although market-oriented economy needed flexible credit policy (also with a less state intervention in allocating credits), actually there wasn't a capital and money market, with the result of a lack of qualitative control – in a capitalist market economy is the market itself that has this function. However, Yugoslav financial authorities sought to

191 B. Horvat, *Yugoslav Economic Policy*, p. 134.

192 B. Horvat, *Yugoslav Economic Policy*, p. 134.

193 B. Horvat, *Yugoslav Economic Policy*, p. 134.

solve this problem with the regulation of credit demand and with a qualitative *a priori* control: final (credit) demand ought to be financed out of income produced, and inventory by accumulation.¹⁹⁴ Credit to enterprises ought to be given on the basis of some evidences as invoice or the bill of exchange.¹⁹⁵

This system, lasted four years until the 1965 reform, expressed some positive aspects – as the push to enterprises to fulfill the conditions prescribed to have credits – but in general the qualitative control did not reach the quantitative regulation of money supply.¹⁹⁶

The higher degree of freedom for enterprises in managing the income distribution rapidly brought the enterprises themselves to choose wage bonuses and new borrowings over investments. The response of federal government was the freezing of wages by 1962, but this could not stop the decline of industrial production of 1961-1962 and the failure of the Five Years Plan.¹⁹⁷

In relation to foreign trade, the recession started in 1960 concurred to carry out the “little” reform of 1961.¹⁹⁸ Dinar was devalued from 300 to 700 on \$1 and multiple exchange rates were abolished for a customs tariff; in the meantime exports were freed and supported by premiums and tax reductions,

194 B. Horvat, *Yugoslav Economic Policy*, p. 135.

195 B. Horvat, *Yugoslav Economic Policy*, p. 135.

196 «The National Bank had to generate a constant stream of detailed and extensive instructions, which became particularly cumbersome. Since not all practical cases could be envisaged and regulated in advance, the handling of borderline cases caused considerable difficulties». Horvat, p. 135.

197 J. Lampe, *Yugoslavia as History*, p. 278.

198 B. Horvat, *Yugoslav Economic Policy*, p. 126.

while imports were liberalized for one fifth.¹⁹⁹

Yugoslavia pursued such a strategy because of the effort to be a “multilateral” commercial partner of both West and East countries: as I will analyze with regard to the mid-1960s reform, the communist leadership sought to integrate Yugoslavia in the world market. Between the end of 1950s and early 1960s Yugoslavia sought to apply for GATT (General Agreement on Trade and Tariff) membership. Actually the country won an associated membership in 1958, a temporary membership in 1962 and eventually the full membership in 1965.²⁰⁰ In the meantime Yugoslavia sought to achieve COMECON (which absorbed one-third of its foreign trade) membership: even in this case Yugoslavia got the status of “observer” in 1964.²⁰¹

With the effort to be a part of world market, the devaluation of dinar and the applications for international trade institutions, Yugoslav government, pursuing at the same time the improvement of both exports and enterprises efficiency,²⁰² sought to limit the deficit of payments balance and internal debt.

The financial opening to international market rules had

199 B. Horvat, *Yugoslav Economic Policy*, p. 126.

200 B. Horvat, *Yugoslav Economic Policy*, p. 122. According to Stella Margold the full membership was reached in 1966: see *Yugoslavia's new Economic Reforms*, p. 72.

201 B. Horvat, *Yugoslav Economic Policy*, p. 122. Yugoslavia had commercial relations also with India and United Arab Republic (one-third of her total commercial relations). The three countries launched in 1966 the Tripartite Cooperation to foster the commercial relations in a sort of “Danubian trading area”. See Horvat p. 122.

202 S. Margold, *Yugoslavia's new Economic Reforms*, p. 72.

several *short-term* effects on Yugoslav economy and society, with the discontinuities and the contrasting tendencies typical of its socialist economic framework. Although the market pressures increased standards of living, efficiency of enterprises and consumption goods, on the other hand they led to inflationary pressures and increased the living cost. The contradictions were those of a rapidly changing society that faced – discovered? – at the same time the positive and negative sides of market mechanisms: faster growth *but* increasing of economic disparities between republics; more efficiency *but* unemployment; improvement of consumption *but* inflation; higher wages *but* parallel increasing of living cost. These tendencies were also increased by foreign pressures of US and other financial institutions as Monetary Fund, which did not wait, of course, to claim back the loans or to provide them at worse conditions. Stella Margold pointed out that Yugoslavia was soaking funds like a sponge²⁰³. Was it necessary to maintain those growth rates?

This was a “natural” collateral effect of the ambitious project of the communist leadership, that is to let coexist at the same time market mechanisms and socialism and, furthermore, central planning and self-management. Market-socialism was indeed another *specimen* of Yugoslavia.

But business criteria and socialist economy are *at least* quite difficult to harmonize in relation to the far different criteria

203 S. Margold, *Yugoslavia's new Economic Reforms*, p. 72.

that are the basis of their theory and practice.

In conclusion, in relation to the first measures introduced in 1961 Horvat noted that within the new system “export were retarded and imports accelerated”²⁰⁴, exactly the opposite of what the communist leadership sought to do.²⁰⁵

Nevertheless, “liberal hour struck”: the recession of early 1960s ignited the further debates over liberalization and market-socialism. The debate in the League of Communists during 1960s was quite unbalanced in favor of those who wanted to strengthen market mechanisms. As noted by Lampe, the liberal coalition included party leaders of Croazia, Slovenia, Serbia, Macedonia. The failure of the half-measures of 1961 did not leave the field to a return of central planning or “soviet-type” economy: the 1965 reforms was coming.

2. The Reform of 1965

The reform of 1965 embodied one of the most important stages of Yugoslav socialism. It definitely went further in the direction of full development of market-socialism, in relation to both domestic and foreign markets. The reform, in the attempt of strengthening market mechanisms and, at the same

204 B. Horvat, *Yugoslav Economic Policy*, p. 126.

205 Horvat writes: «In order to keep the balance of payments deficit under control, import restrictions were multiplied and in 1964 the tariff protections was increased from 20 to 30 percent. Exports were stimulated by making foreign exchange allocation conditional upon export sales. Export premiums and tax reductions were rapidly expanding. Soon the old system of multiple exchange rates reappeared with all its inefficiencies». See *Yugoslav Economic Policy*, p. 126.

time, improving enterprises efficiency, ignited to several social tendencies that later on deeply marked the Yugoslav society.

The changes, however, did not concern just the economic structure but the entire society. This work looks first at the specific provisions of 1965 reform (and at the same time at the macroeconomic conditions), then to the social and political forces that fought for, and against, the reform.

From a methodological standpoint, as the French philosopher Michel Foucault put it, a general history, in the effort of catching the discontinuities and the relations among historical periods and phenomena, should show *all the space of a dispersion*:

La nuova storia [the general history, e. n.] problematizza le serie, le scansioni, i limiti, i dislivelli, gli scarti, le specificità cronologiche, le strane forme di persistenza, i possibili tipi di relazione. Non che cerchi di ottenere una pluralità di storie giustapposte e indipendenti le une dalle altre: quella economica accanto a quella delle istituzioni [...] Il problema che si apre allora – e che definisce il compito di una storia generale – è quello di dominare quale forma di rapporto possa essere legittimamente descritta tra queste serie differenti [...] Una descrizione globale racchiude tutti i fenomeni attorno ad un unico centro, principio, significato, spirito, visione del mondo, forma d'insieme; una storia generale dovrebbe invece

mostrare *tutto lo spazio di una dispersione*. [emphasis mine]²⁰⁶

So, in the light of the analysis of the 1965 reform, the specific *economic* provisions (taxes, prices, relations with international financial institutions and foreign trade, banking and credit, more freedom for enterprises) are the first elements taken into consideration; subsequently, the social effects and tendencies – *ex.gr.* the increasing of unemployment, technocracy, nationalism, bureaucracy – are analyzed in relation to and beyond the reform. Even the political contrasts within the League of Communist are called into question, in the attempt of sketching out the picture in all its complexity and in a holistic approach to reality.

The 1965 reform was composed by 35 laws, which according to Stefano Bianchini went in the direction of democratize the Yugoslav society, increasing economic development and open the economy to international markets. The author asserts that the reform was as important as the liberation war and the conflict with Cominform.²⁰⁷

From a macroeconomic perspective, in 1964 the inflation

206 M. Foucault, *L'Archeologia del sapere. Una metodologia per la storia della cultura*, Milano, Bur, 2011, p. 15 – 16.

207 S. Bianchini, *La questione Jugoslava*, p. 105 – 106.

rate jumped to 10% and the surplus import doubled (from \$188 to \$232) the 1963 level. In relation to bank credit, the communal banks that sprung up since 1955 provided “easy” credits to enterprises. In this way short-time credits begun *de facto* long-time credits.²⁰⁸ Stella Margold highlighted that in 1964 the deficit was \$215 millions.²⁰⁹

A bank reform launched in March 1965 advanced the main reform of July, which consisted, according to Lampe, of five main provisions:

- a. reduction of taxes: the enterprises net share of income was fixed to 70% (the previous share was 50%);
- b. strengthening of Fund for Accelerated Development of Less Developed Republics and Kosovo, which received resources from a tax of 1.85 percent on gross income of social enterprises;
- c. devaluation of dinar from 750 to 1,250. This measure was important in order to win the full GATT membership (actually reached in 1966);
- d. agricultural and raw material prices increased by an average of 60% and industrial ones of 30% (even if the prices were still controlled);
- e. free access of peasants working private lands to bank credits in order to purchase tractors and agricultural equipment.²¹⁰

208 J. Lampe, *Yugoslavia as History*, p. 281 – 282.

209 S. Margold, *Yugoslavia's new Economic Reforms*, p. 76.

210 J. Lampe, *Yugoslavia as History*, p. 282.

The reform led to a new taxation system and to an higher freedom and responsibility for enterprises to manage a larger share of net income; to a new banking system; to a change of prices and foreign trade. The reform fostered the new approach to international institutions as GATT and COMECON and, as an harmful collateral effect, ignited the increase of unemployment.

The enterprises' self-management system (as happened in other crucial periods as the early 1950s or the 1970s) was deeply involved in the reform in two main ways:

- in relation to the change in the economic structure: new taxation system and devaluation of dinar, rising unemployment etc. (see paragraph 2.1);
- in relation to a social trend of *double polarization*: with the strength of market relations there was an increase of the power of technocrat cadres and partially of the differential of income distribution, which provoked strikes and conflicts in the enterprises.²¹¹

Hence, market relations brought into enterprises' management new business oriented criteria. The central planning was actually decreased and enterprises had an effective power in managing their own business. But, as stated above, the role of managers increased, leading to new conflict with workers and to new social conflicts.²¹²

²¹¹ I will specifically analyze this trend in the paragraph 3.

²¹² For example in 1960s occurred several strikes, phenomenon that in a socialist economy should not appear. Paragraph 2.3 deal with the analysis of strikes data and

2.1. New rules for Enterprises: Income and Taxes in the Light of Market Regulations

As seen earlier in the text, in the first years of 1960s Yugoslav government faced the problem of a general lack of enterprises efficiency, especially in less developed regions. Many enterprises were created for “political reasons” and not for rational economic plans. One example should clarify the point: an area of Montenegro that supported partizan war profited of a plant to manufacture refrigerators. This plant was put on the top of a mountain accessible just for a part of the year.²¹³

The reform of mid-1965s sought to decrease the political-oriented investments to foster a more rational use of financial funds. Strengthening market rules appeared to SKPJ leadership as the only viable way to reach several issues and decrease public debt.

As Stefano Bianchini put it, the equilibrium between market and planning was one of the main focuses of mid-1960s reform:

Dall'insieme di questi provvedimenti, pertanto, ne conseguì un progetto riformatore di ampio respiro che tese ad indirizzarsi verso la ricerca di un equilibrio fra piano e mercato con l'intento di liberare i produttori

characteristics.

213 J. Lampe, *Yugoslavia as History*, p. 276.

diretti e restringere i piani dell'intervento dell'apparato statale.²¹⁴

Market-oriented reform witnessed this new investment policy by government, making enterprises responsible for investments and production. How communist leadership could pursue this issue?

First of all, improving the role of management board, supposed to act differently from merely “political criteria” and to be more business oriented.²¹⁵ Then, the income share that enterprises could dispose of actually increased.

According to the pamphlet *The economic reform in Yugoslavia*, a freer degree of investment and development, in the light of new market rules, was the keystone of the reform:

Within the framework of the proposed changes in the economic system, we shall have to count on the fact that the volume of allocations from central funds will be restricted and that working organizations will have to make their own decisions on priorities in investment, in accordance with their possibilities and their needs and in keeping with their position when new price relations and conditions of foreign trade are established. By

214 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1972*, in *L'Autogestione Yugoslavia*, p. 45. Translation: «The reform provisions ignited an ample reform project addressed to find a balance between market and planning and free the action of direct producers and limit state intervention».

215 S. Margold, *Yugoslavia's new Economic Reform*, p. 68: «now government is of the opinion that with greater power in the hands of management board, and with the more stringent bank controls, the management boards will function effectively».

introducing firm economic criteria in the new conditions, the foundation will be laid for a rational long-term policy of investment and development.²¹⁶

So, an effective control of surplus realized was put in the hands of the direct producers at enterprise level. This issue was reached with a reform of taxation. Specifically, the progressive taxation on enterprises earnings was abolished for a flat rate tax of 13% in 1961 and 10% in 1965.²¹⁷

New taxation led to an improvement of net income of enterprises, which arose from about 50% in 1961 to 70% in 1965.²¹⁸ the higher earnings in the disposition of direct producers went in the direction both of increasing labor productivity and making enterprises responsible for the losses. In relation to the first point the issue was linking wages improvements with labor productivity, but the consequence was a progressive detachment of one another and inflationary pressures.²¹⁹

In relation to enterprises responsibility for gain and losses and, generally, to the reduction of public endless investments – not sustainable anymore –, the reform sought to increase the link between enterprises and banks. The enterprises had to

216 Petar Stambolić, “A Broader Base for Self-Management”, in *The Economic Reform in Yugoslavia, Beograd, 1965*, p. 64. Quoted in Friedmann, *Freedom and Planning in Yugoslavia's economic system*, p. 631.

217 H. Flakierkis, *The Economic system*, p. 9.

218 J. Lampe, *Yugoslavia as History*, p. 282. According to Flakierski the net income arose from 50% to 66%: see *The Economic system*, p. 9.

219 H. Flakierkis, *The Economic system*, p. 9.

decide themselves the investments decision without state intervention, sharing the responsibility with banking system. But, if in a capitalist economy the individual risks his own capitals, in this case we can see a kind of “social capital” risking: umpteen element of Yugoslav creative anomaly.

2.2. Market-socialism in the Light of 1960s Reform: Prices, Banking System, Foreign trade, Foreign Direct Investments

The Yugoslav price policy changed several times, even with far different shifts from a system to another. With the first Five Years Plan, i. e., the system was based on uniform prices planned by authorities and supposed to be rigidly stable. Prices were formed with an average rate of profit added on an average costs.²²⁰ Then, without the supply-demand relation to equalize production and consumption there was a chronic excess of demand: this led to rationing of consumer goods, while in agriculture a system of compulsory deliveries was introduced.²²¹

Later on, the administrative control of prices – a specimen of soviet-type economies – was substituted with market mechanisms: in 1951/1952 the increase of prices was addressed to absorb the excess of money incomes and, at the

²²⁰ B. Horvat, *Yugoslav Economic Policy*, p. 109.

²²¹ B. Horvat, *Yugoslav Economic Policy*, p. 109.

same time, to accumulate capitals and foster investments.²²²

Other major changes in prices policy were launched in 1955 and in 1961. In 1955 the industrial prices rose by five percent.²²³ This led the government to create the Federal Price Office and to return to administrative control in order to set fixed prices in relation to electrical power, cigarettes, transportation rates, sugar, oil etc. In 1958 was introduced the *prior* price control: those producers who wanted to raise prices were obliged to notify the increases to Federal Price Bureau, which had a veto power.²²⁴

According to Horvat, the growth of the inflation in 1961 was mainly related to administrative control increases:

The most frequent form of price control – prior price registration – could not be adequately applied to new products. By making small changes in the design of a product an enterprise would transform it into a new product and so could evade price control. In 1964 almost twenty five thousand new products were launched. Low and rigidly controlled prices of raw materials made their production unprofitable and so depressed output [...]

This is why in 1964 prices were raised administratively

222 B. Horvat, *Yugoslav Economic Policy*, p. 110. In order to accumulate capitals, prices increasing concerned retail prices of manufactured consumer goods relative to agricultural prices, while to stimulate investments prices increasing concerned producer goods. According to Horvat, the first strategy – capitals accumulation – succeeded, while the second didn't.

223 B. Horvat, *Yugoslav Economic Policy*, p. 111.

224 B. Horvat, *Yugoslav Economic Policy*, p. 111. In general, the criteria of Federal Price Bureau were the importance for living standards or for production, the scarcity of those goods on market and the monopoly position of producer.

in agriculture, the food processing industry, energy generation and nonferrous metallurgy. *Next, differential taxation, a system of premiums and subsidies and administrative interventions in foreign trade tended to preserve and even increase price disparities.* [emphasis mine].²²⁵

Along with administrative controls, as I have already analyzed in Chapter 1, the abolition of income controls led to a cost-push inflation and to the rising of prices. As noted by John Lampe, in 1964 the rate of inflation jumped to 10%.²²⁶

This uproarious changes in Yugoslav prices policy and the rising of inflation concurred to ignite the 1965 reform, which introduced even more radical changes. In March prices were frozen while the reform was carried out and in June dinar was devalued and new prices introduced (then frozen again).

The main aim of the reform was integrate Yugoslav economy in world market: for this reason world prices were taken as a basis and corrected upwards or downwards by taking into account capitals accumulations and other elements.²²⁷ In the following table it is possible to see the increasing of prices from 1963 to 1968:

225 B. Horvat, *Yugoslav Economic Policy*, p. 111.

226 J. Lampe, *Yugoslavia as History*, p. 281.

227 B. Horvat, *Yugoslav Economic Policy*, p. 111.

Table 2.2 Changes In Price Levels in Percentage per Year

	1952 - 1963	1964	1965	1966	1967	1968
Producer prices in manufacturing and mining	0,9	5	15	11	2	0
Agricultural producer prices	8,6	24	43	16	-3	-4
Retail prices (including services)	3,9	9	29	23	7	4

Sources: Yugoslavia 1945-1964. SGS-1969. In B. Horvat, *Yugoslav Economic Policy*, p. 112.

If from 1952 to 1963 prices arose of about 1% per year in producer prices, of 9% in agriculture and 4% in retail prices, subsequently (until 1968) agricultural and raw materials prices increased by an average of 60% and industrial prices of 30%.²²⁸ At the same time peasant working private land were allowed to access to bank credit.²²⁹ It seems that in 1968 prices were quite stabilized, but as noted by Horvat later on, in 1969 prices started to rise again.²³⁰ In another pamphlet the Yugoslav author highlighted that even in recessive conditions, especially in 1961 and 1956-57, and with monetary restrictions, prices continued to increase, even more than before: “the paradox remained unexplained”.²³¹ The reasons of prices increasing are several: first, it could happen when allocation efficiency is inferior to growth efficiency.²³² Then, other authors explained

228 J. Lampe, *Yugoslavia as History*, p. 282.

229 J. Lampe, *Yugoslavia as History*, p. 283.

230 B. Horvat, *Yugoslav Economic Policy*, p. 112.

231 B. Horvat, *Business Cycles in Yugoslavia*, p. 142.

232 B. Horvat, *Yugoslav Economic Policy*, p. 113.

it because of the “deformation of an insufficiently market-oriented economy [...] that the National Bank has been attempting already for two years to correct by artificial limbs of rigid monetary-credit restrictions”.²³³ According to the argument that Horvat developed in the pamphlet *Business cycles in Yugoslavia*, the cause of this phenomenon was related to the institutional system: less reactive than a capitalist one, a socialist system, even with the slowdown of production (and with productivity capacities not fully utilized) experiences that personal income and employment continues to grow also in open recessive conditions. Somewhat, this is what happened, according to Horvat, to Yugoslav economy.²³⁴ Actually, in a socialist economic framework the actors react slower than in a capitalist-marked economy, which had more freedom in hiring workers and adjust the production. So, Yugoslavia experimented that personal incomes and productivity of labor did not follow the same pace growth, leading to inflation.

In relation to the rising of inflation must be taken into account that with 1961 and 1965 reforms a bigger part of net income was left to the enterprises in order to make the enterprises responsible for credits and to limit the federal subsidies: given the fact that, as already mentioned, in the aftermath of a recession economic actors were supposed to react slower in a socialist economy than in a capitalist one, at

²³³ B. Horvat, *Business Cycles in Yugoslavia*, p. 142.

²³⁴ B. Horvat, *Business Cycles in Yugoslavia*, p. 142.

the same time they tent to use the surplus in their disposition to improve wages and not to invest them in the production.

Along with the reform of prices policy, money and credit policy were reformed as well. Prices policy and monetary policy are the two sides of the same – mid-1960s – reform, with which the government sought to decrease the credit expansion and the debt. So, in March the number of banks, sprung up since 1955, was reduced again: from the 388 communal banks the system passed to 40 larger regional banks.²³⁵

According to Lampe «the new banks would operate on a commercial basis, providing long and short-term credits to the borrowers most likely to repair their loans, but also lending within the guideline of the Social Plan».²³⁶

Margold noted that if the previous pattern the banks were fiscal agency, the new system was a “modern system of banking with increased independence in determining money and credit policies”.²³⁷ According to Horvat, the credit policy changed radically: from the regulation of credit demand to the control of credit supply.²³⁸

The banking system changed radically also in its institutional features: within the new system the banks were established by enterprises and socio-political communities (at

235 J. Lampe, *Yugoslavia as History*, p. 282.

236 J. Lampe, *Yugoslavia as History*, p. 282.

237 S. Margold, *Yugoslavia's new Economic Reforms*, p. 69.

238 B. Horvat, *Yugoslav Economic Policy*, p. 126

least 25 founders were required to establish the bank) as co-funders, becoming shareholders of the bank; the whole capital of the bank was composed by the funds of each investor. Every shareholder of the bank had a capital return (the dividend) depending on business success, but the dividends could not be distributed in wages but just in capital formation. Every shareholder had a maximum of ten percent of the total number of votes (to avoid monopolistic positions).²³⁹

Next to National Bank other three banks were created : the Investment, Foreign Trade and Agricultural bank. National Bank was responsible only to General Assembly and to the Federal Executive Council, fixed the monetary and credit policy and coordinated the newly created commercial banks. Moreover, the Bank set the criteria to judge the credit worthiness of applicants.²⁴⁰

Finally, according to the banking law of March, the Central Bank, to fulfill its operations, had the power to create new type of banks: commercial, investment and savings bank.²⁴¹ As we can see from the following table, in three years the banking system changed qualitative and quantitative

239 B. Horvat, *Yugoslav Economic Policy*, p. 136.

240 S. Margold, *Yugoslavia's new Economic Reforms*, p. 69.

241 S. Margold, *Yugoslavia's new Economic Reforms*, p. 69. The commercial banks granted short-term credits to economic organizations and long-term credits to for housing and community purposes.

Table 2.3. Yugoslav Banking System Reform

November 1964		June 1967	
Type of Bank	Number	Type of bank	Number
Communal banks	206	Commercial banks	61
Republican investments bank	8	Mixed banks	39
Specialized federal banks	3	Investments banks	11
Total	217	Total	111

B. Horvat, *Yugoslav Economic Policy in the Post-War Period: Problems, Ideas, Institutional Developments*, p. 136.

The last element to take into account in the analysis of 1965 reform and Yugoslav government's issue to introduce market relations is the foreign trade.

Previously, I have mentioned the Yugoslav application to GATT and COMECON memberships, both won in 1966 (even if in the first case with a full membership and in the second as a observer), and of the commercial relations with United Arab Republic.

As in other sectors of economic, political and social life, even in foreign trade Yugoslavia could experiment, given the departure from the Soviet world, both *international* market relations and socialism. Until 1951 the government kept the monopoly of foreign trade: domestic market was cut off from the rest of the world; exchange rates were just account indications without economic mean; import and export were conducted at fixed prices; foreign trade enterprises acted as

agencies for Foreign Trade Ministry.²⁴²

In the aftermath, Yugoslav government became much more interested, even for the international isolation after the Soviet blockade, in the foreign trade in order to enter in the international division of labor. But, as Horvat put it «a high degree of liberalization was envisage in foreign trade, but in comparison to the liberalization of the home market, the liberalization of foreign trade system proved to be a much tougher job».²⁴³ During the 1950s Yugoslavia experimented a multiple exchange rate system: in 1951 export exchange rates was 354 dinars for \$1 and in 1952 it increased to 585 dinars; in relation to import exchange rate it lagged behind: 440 din for 1\$. This led to a weakening of home market and to an increase of prices, which by 1961 reached the level of 12.3 times as high as official rate.²⁴⁴

The recession and the instability started in early 1960s ignited the authorities to launch a reform of foreign trade: the multiple exchange rate system was substituted with a customs tariff, export was free and supported by tax reductions. One fifth of imports was liberalized.²⁴⁵

Already by 1964 government faced a substantial failure of the reform, which led to a retard of exports and an acceleration of imports – with the effect of worsening the balance of

242 B. Horvat, *Yugoslav Economic Policy*, p. 122. For a historical survey of Yugoslav foreign trade see Horvat, quoted, from p. 119 to 130.

243 Horvat, *Yugoslav Economic Policy*, p. 124.

244 Horvat, *Yugoslav Economic Policy*, p. 125.

245 Horvat, *Yugoslav Economic Policy*, p. 126.

payment. For this reason, quantitative restrictions of imports were imposed and, at the same time, the tariff protection passed from 20 to 30.²⁴⁶ Besides, the problem concerned also the different types of countries with which Yugoslavia oriented her foreign exchange. For example, the prices of COMECON sphere were higher than the rest of world market: in this case the export-oriented enterprises were favored then import-oriented; on the contrary, importers were oriented toward convertible currency countries: the deficit of payment balance increased.²⁴⁷

The strategy of the 1965 reform changed approach, but keeping the effort to open Yugoslav economy to world market.

The reform foresaw another devaluation of dinar: new official rate was \$1=1250din. The tariff protection was lowered from 23.3 percent to 10.5 percent.²⁴⁸ The supply of foreign exchange was secured by the cooperation with International Monetary Fund and trade was liberalized; retention quotas remained at 7 percent. Finally, the system of inducements and quantitative restrictions was kept, in particular to foster a more balanced regional growth.

In relation to foreign trade, according to Horvat the reform, and in particular the devaluation of dinar, led to an acceleration

246 Horvat, *Yugoslav Economic Policy*, p. 126.

247 Horvat, *Yugoslav Economic Policy*, p. 126. As Horvat put it, the balance of payment deficit with convertible currency countries increased rapidly, while there was an unabsorbed surplus with clearing currency countries.

248 B. Horvat, *Yugoslav Economic Policy*, p. 127. In particular, there was a differentiation of rates between primary commodities (5%) and consumer goods (21%).

of exports and a deceleration of imports, but the effects soon were exhausted:

The reform of 1965 is interpolated by an additional cycle of exports and imports. It is characteristic however, that the export expansion and import contraction in 1965 did not success in stopping the retardation of general economic movements. It is obvious, therefore, that although foreign trade expansion aids the recovery from depression, it is not sufficient by itself to reverse economic movements.²⁴⁹

Moreover, the tendencies that Yugoslav government sought to reverse reappeared soon: imports began to expand faster than exports. The effort to integrate the Yugoslav economy in world market was carried on also with the opening of her economy to international capitals, with the creation of joint-ventures with 51% of Yugoslav capital. Also in this case there was a remarkable difficulty to let self-management and international market conditions coexist. Of course, international capitalist entrepreneurs seek to maximize their profits: actually it was quite difficult to establish a compromise between a socialist framework in which self-management still was the keystone – even in a economic system characterized by market relations – and the profitability of direct foreign investments. Considering also that a tax of 33% on enterprise earnings, the obligation to

²⁴⁹ B. Horvat, *Business Cycles in Yugoslavia*, p. 165.

invest the 20% on the place and the higher level of workers rights and protections in comparison to capitalist countries made investments less attractive for foreign capitalists.²⁵⁰

However, the first element to highlight is the nature of direct foreign investments in Yugoslav economy. As Gabriele Crespi Reghizzi noted, the type of joint-venture launched in Yugoslavia from 1967 was a *contractual joint venture* and not an *equity joint-venture*: this means that the *social* property of enterprise, basic element of Yugoslav economic framework, wasn't called into question.²⁵¹ The joint venture concerned the “common economic operations”, that is the economic activity carried on by the self-managed enterprise in which flew the international capital. The international investor could keep the ownership rights on a part of goods and credits invested in the self-managed enterprise – even if, as we have mention before, he couldn't be owner of the enterprise.²⁵²

From the point of view of enterprise's management, the relationship between self-management organs and the organs of the joint venture – given the contractual nature of the investment – led to a double level of management of the firm: the compromise was based on the coexistence of the joint-venture committee (with its own organs, such as president and vice-president of the committee) next to the self-management

250 J. Krulic, *Storia della Jugoslavia*, p. 82–83.

251 G. Crespi Reghizzi, *Autogestione e investimenti esteri in Jugoslavia*, in *L'autogestione jugoslava*, p. 251.

252 G. Crespi Reghizzi, *Autogestione e investimenti esteri*, p. 251.

organs (workers' council, management board and director).²⁵³ This system brought several difficulties to harmonize the different components of this kind of enterprise. Concretely, the effort to attract foreign capitals had little success: by 1969, that is two years after the reform, contracts stipulated were 7; 23 in 1970 and 42 in 1972.²⁵⁴

However, the question of joint-ventures in a socialist economy is interesting under a theoretical point of view, as the umpteen effort of Yugoslav economy to seek a difficult compromise between socialist self-management and market relations, in this case opening the economy to international capitals.

2.3. The Reform of 1965 and the Phenomenons of Unemployment, “Work Stoppages” and Income Differentials Increase

With the strengthening of market relations the communist leadership sought to make Yugoslav economy more efficient and to raise labor productivity. Nevertheless, the strengthening of market-oriented economy ignited some negative tendencies as the growth of unemployment rates.

Socialist economies were supposed to be free from the unemployment phenomenon. However, also these countries,

²⁵³ G. Crespi Reghizzi, *Autogestione e investimenti esteri*, p. 254.

²⁵⁴ G. Crespi Reghizzi, *Autogestione e investimenti esteri*, p. 255.

and especially Yugoslavia, had to face this phenomenon. In the Yugoslav case unemployment was directly linked to the main reforms and changes that periodically were introduced in the economic structure: for example, the unemployment started to grow for the first time right after 1950, that is across the period of the introduction of self-management. In that case, the effort to reduce both central planning and bureaucracy provoked the reduction of employed personal in the administration and in the productive sector. Janez Malačič noted that the number of employees in 1949 was 1.99 million, while in 1952 the number was 1.734 million.²⁵⁵

The period taken into account in my analysis goes from the early 1960s to the mid-1970s: the aim is to establish a relation between unemployment and market mechanisms. According to Malačič, until 1975 the trend of unemployment can be divided in two periods: from 1952 to 1964 and from 1964 to 1975. The second, in particular, is the focus of the analysis. Moreover, the regional data of unemployment (reported in Table 2.5) merit specific attention because they are useful to analyze the nationalist crisis occurred in early 1970s.

If until 1964 the trend of unemployment was basically quite low (it exceeded 6% just in 1962 and 1963), right after the reform of 1965 unemployment started to grow and reached its apex. In general, in the period 1952-1975 in Yugoslavia the

²⁵⁵ J. Malačič, *Unemployment in Yugoslavia from 1952 and 1975*, Eastern European Economics, Vol. 17, No. 4, 1979, p. 86.

unemployment grew at an average of 11.4%, but at the same time employment rose at an average of 4.5%.²⁵⁶

The next table will show the trend of unemployment from 1960 to 1975:

Table 2.4. Employment and Unemployment from 1960 to 1975

Year	Number of employed (in 1,000)	Number of unemployed	% of unemployed
1960	2971	159230	5.1%
1961	3242	191283	5.6%
1962	3318	236563	6.6%
1963	3390	230272	6.4%
1964	3608	212486	5.6%
1965	3662	236969	6.1%
1966	3582	257607	6.7%
1967	3561	269067	7.0%
1968	3587	310996	8.0%
1969	3706	330626	8.2%
1970	3850	319586	7.7%
1971	4034	291301	6.7%
1972	4210	315304	7.0%
1973	4306	381586	8.1%
1974	4514	448644	9.0%
1975	4758	540135	10.2%

Source: Statistical Yearbook of Yugoslavia, 1976, p.80. Cited in Malačič, *Unemployment in Yugoslavia*, p. 90.

As we can see, the trend of unemployment increased constantly after the mid-1960s reform: from 1965 to 1966 the

²⁵⁶ J. Malačič, *Unemployment in Yugoslavia*, p. 89.

increasing was of 0.6% and of 1,6% in 1970. The increasing of unemployment is directly linked to the strengthening of market mechanisms, which if on one hand improved labor efficiency, individual incomes and consumption, on the other hand increased regional and social disparities.

Even more interesting is the analysis of regional unemployment data. As we can see from next table, the increase of unemployment from the mid-1960s reform was not homogeneous. The less developed republics paid the highest cost of the disparities ignited by the *lasseiz-faire* period, with an average rate of unemployment that exceeded even of one-third the rate of the developed republics. As a matter of facts, the increase of unemployment rates in the federation strengthened the disparities between republics, in particular between Croatia and Slovenia – to which unemployment, even after the international oil crisis of 1973, was not a problem as harmful as in the other areas – and all the other republics. In the first half of 1970s the disparities strongly increased, leading to a double velocity in the economic growth of the federation. Also those republics that did not have unemployment problems started to face the question; the data of the three years from 1973 to 1975 are impressive indeed: every republic doubled the unemployment level of the previous ten years. The only exceptions, of course, were Croatia and Slovenia: if we look at the data of the two

countries the rate of unemployment is quite stable and even decreases. Therefore, the data showed in next table are useful to understand the further social questions arose in Yugoslav society, as the economic nationalism. This kind of nationalism, for example, had its hard core especially in Croatia and Slovenia.

So, in the following table are shown the unemployment data for each Yugoslav republic:

Table 2.5. Unemployment Rates in Yugoslavia by Republics and Autonomous provinces from 1965 to 1975

YEAR	SFRY	BOSNIA AND HERZE GOVI- NA	MON- TENE- GRO	CROA- TIA	MACE- DONIA	SLOVE NIA	SERBIA	VOJVO- DINA	KOSO- VO
1965	6.1%	5.1%	6.4%	6.2%	16.5%	2.4%	7.5%	4.9%	21.0%
1966	6.7%	5.2%	7.7%	6.1%	16.4%	2.7%	7.6%	5.4%	21.0%
1967	7.0%	6.2%	7.8%	6.7%	18.2%	3.6%	7.9%	6.0%	20.9%
1968	8.0%	7.6%	8.9%	6.4%	19.1%	3.6%	9.4%	7.6%	21.4%
1969	8.2%	6.6%	7.4%	5.4%	19.0%	2.5%	7.9%	5.8%	17.0%
1970	7.7%	5.3%	6.0%	4.3%	18.3%	2.8%	8.5%	5.8%	20.0%
1971	6.7%	5.2%	6.6%	4.3%	17.7%	2.5%	7.9%	5.8%	17.0%
1972	7.0%	6.7%	7.1%	4.6%	18.2%	2.1%	8.9%	6.8%	18.9%
1973	8.1%	7.8%	12.3%	4.8%	19.7%	1.8%	10.7%	8.1%	20.5%
1974	9.0%	10.0%	13.5%	5.1%	21.3%	1.4%	12.1%	9.3%	21.9%
1975	10.2%	12.3%	15.1%	6.3%	22.2%	1.7%	13.6%	11.2%	23.0%

Source: Statistical Yearbook of Yugoslavia, 1976. See also J. Malačič, *Unemployment in Yugoslavia*, p. 94.

Along with the phenomenon of unemployment, the Yugoslav political system dealt with another social question supposed to be at least unusual for a socialist country, that is workers' strikes, called euphemistically, if not sanctimoniously, *work stoppages*. Indeed, given the social ownership of the means of production, the workers were supposed to be the direct owners of those means. Thus, theoretically, they strove against themselves. Of course, the *material power relations* within the enterprises were far different from the theory.

Tito Favaretto, in relation to the effects of 1965 reform, pointed out that the strengthening of market relations, the opening to international markets and the encouragement of individual activity provoked the rising of competitiveness and conflict, as well as the increasing of disparities among republics, areas, enterprises, people (as we have clearly seen analyzing unemployment phenomenon):

La riforma economica del 1965, attraverso l'aumentato livello di autonomia delle imprese, l'estensione dei rapporti di mercato, gradi più alti di decentramento politico ed economico e l'incentivazione dell'attività individuale, aveva necessariamente fatto emergere spazi di competitività e conflittualità [...] Se la competitività tra le varie unità economiche autonome dava nuovo slancio all'economia, determinava, però, gradualmente, una differenziazione tra imprese, settori, aree

geografiche, secondo la loro capacità di presenza sul mercato interno e internazionale, mentre il venir meno dell'importanza dell'individuo e della società attenuava l'importanza degli interessi collettivi. La rivalutazione del ruolo dell'individuo, e la sua incentivazione materiale consentivano maggiori livelli di efficienza del sistema ma accentuavano le differenziazioni sociali legate alla ineguale ripartizione del reddito.²⁵⁷

As reported in the following tables, strikes numbers were strictly related to the strengthening of the powers of the management cadres. The enterprises' self-management was gradually becoming a kind of *managers self-management*.

As for the unemployment, work stoppages were connected to the increasing disparities among geographic areas, but also with the increase of *social* disparities. As for unemployment, also the phenomenon of strikes, in this paragraph, is analyzed from a quantitative point of view, while in next paragraph the analysis will concern the contextualization of the social and political aspects linked to this and other phenomena – as the relation, for example, between strikes and technocracy.

The first strike occurred in January 1958 and involved more

²⁵⁷ T. Favaretto, *Aspetti della conflittualità e della distribuzione del potere sociale nell'impresa autogestita jugoslava*, in *L'autogestione jugoslava*, p. 145. Translation: «The economic reform of 1965, with the increase of autonomy in favor of the enterprises, the strengthen of market relations, political and economic decentralization, the improvement of individual activity – provoked the increases of conflicts and competitiveness [...] If, on one hand, the competitiveness among several autonomous economic units improved the economic performance, on the other hand differentials between enterprises, sectors, geographic areas increased due to their presence of domestic and international market».

than 4000 workers (3726 miners, 157 technicians, 17 engineers and 141 employees) of the coal mines of Trbovlje and Hrastnik, Slovenia, who protested against lower wages in comparison to other industries. After few days 1200 miners of the coal mine of Zagorje protested in solidarity with their comrades.²⁵⁸

Prior to analyzing the motivations of the strikes, first of all their characteristics must be taken into account, as the conditions in which strikes occurred. The interruptions of work generally lasted one day: according to Favaretto due to the fear of consequences by both enterprises' management and social, political and trade unions organizations.²⁵⁹

The strikes were quite effective: as reported again by Favaretto, in the 58% of times requests were accepted, in the 17% of times a compromise between the parts was reached and just in the 24% of times requests were rejected.

The strikes were generally spontaneous and exceptional for workers themselves: there was not a national or regional organized movement or a wide social protest as in the capitalist countries.²⁶⁰

From a quantitative point of view, the highest percentage of strikes lasted less than three hours (34%, 175 strikes) while

258 T. Favaretto, *Aspetti della conflittualità*, p. 153. The phenomenon of the strikes in Yugoslavia has been mainly analyzed by Neca Jovanov (colled "Doktor strajk") who published the data in several works, as the book *Radnicki strajkovi u Sfrj* of 1979, which reports the data of the period 1964-1969 and the essay *Les grèves et l'autogestion*, in *Revue de la politique internationale*, n. 471, 1969, p. 32-35.

259 T. Favaretto, *Aspetti della conflittualità*, p. 156.

260 T. Favaretto, *Aspetti della conflittualità*, p. 156.

just the 4,71 % lasted more then four days.²⁶¹ The highest percentage of strikes saw the participation of less than 50 workers – 188 strikes, 36,6% – while just 58 were characterized by a participation of more than 300 workers – 58, 11,3%.²⁶²

The official number of strikes between 1958 and 1969 was 1750; in the following table are reported the number, the percentage and the participation to the “work stoppages” in the period considered. The peak of strikes was reached in the three years period of 1963-64-65:

261 Other time-related strikes data:

1 day: 111 strikes - 21,6%

2 days: 50 - 9,7%

3 days: 14 - 2,7%

4 days: 7 - 1,4%

Source: *Obustava rada. Fenomenon naseg vremena, Borba reflektor*, 1973. Quoted in Favaretto, p. 157.

262 Other participation-related strikes data:

50 to 100 workers: 128 strikes - 25%

101 to 200 workers: 85 - 16,6%

201 to 300 workers: 33 - 6,4%

Source: N. Jovanov, *Les grèves et l'autogestion*, p. 33, Quoted in Favaretto, p. 158.

Table 2.6. Number of strikes from 1958 to 1969

Year	Strikes		Participants	
	Number	%	Number	%
1958	28	1.6	Unknown	
1959	35	2	Unknown	
1960	61	3.5	Unknown	
1961	130	7.4	Unknown	
1962	225	12.8	Unknown	
1963	213	12.2	Unknown	
1964	271	15.5	11000	14.2
1965	231	13.2	9000	11.6
1966	152	8.7	Unknown	Unknown
1967	118	6.7	16762	21.6
1968	148	8.5	19206	24.8
1969	138	7.9	21629	27.8
Total	1750	100	77597	100

Source: N. Jovanov, *Ostrajkovina u Socialistickoj Federativnoj Republici Jugoslavije*, relation published at the annual conference of Yugoslav Sociology Association, 1972, Acts, vol. 3. Quoted in Favaretto, *Aspetti della conflittualità*, p. 155.

Regarding to the motivations of the strikes, the main cause of the conflict was the distribution of individual income and the relations of power in the enterprise. In particular, after the strengthening of market mechanisms, enterprises were exposed to further international competition and, generally, to market pressures. As noted by Favaretto the position of workers, after 1965 reform, was weaker due to the link between incomes and new criteria of production and effectiveness²⁶³. Moreover,

²⁶³ T. Favaretto, *Aspetti della conflittualità*, p. 161.

along with an unequal distribution of incomes, the increasing power of technocracy within the enterprises and the little participation of workers in decision making became other important causes of strikes.

The main causes of strikes were related to inner problems of enterprises, and specifically to violations of the self-management system: 164 strikes were declared against unequal income distribution; 121 against low wages; 67 against the insufficient development of self-management; 37 against managers increasing power.²⁶⁴

In next table are shown the specific causes of strikes:

Table 2.7. Causes of Strikes

Causes	Strikes number	Participants
Low wages	134	19049
Minimum individual incomes	14	1245
Errors in income distribution	133	16220
Payments delays	75	8223
Decreasing of base wages	39	6571
New rules within enterprises	24	1975
Managers bureaucratic attitude	37	6831
Management organs decisions	7	1466
Wrong information or little knowledge of situation	24	3661
Layoffs or changing workplace	13	1303

Source: *Obustava rada. Fenomenon naseg vremena*, p. 9, quoted in Favaretto, p. 161-162

²⁶⁴ *Obustava rada. Fenomenon naseg vremena*, p. 9, quoted in Favaretto, p. 161-162.

The quantitative analysis of strikes shows that the highest number of work interruptions were caused due to inner reasons of enterprises management. In the following table are reported the general factors for which workers went on strike, i. e. external/internal factors, management etc.:

Table 2.8. Antagonists of workers in strike

Causes	Strikes	Participants
External factors	44	9194
Inner factors	339	48911
Inner and external factors	19	5166
Enterprises managers	176	24160
Management organs	43	4548
Both managers and management organs	27	5741

Source: *Obustava rada. Fenomenon naseg vremena*, p. 9, quoted in Favaretto, p. 162

The analysis of both unemployment and strikes data for the period across the mid-1960s reform gives some precious quantitative indications concerning the changes ignited by the reform itself. The introduction of structural economic changes, and the attempt to keep both socialism and foster market pressures had several relevant social costs.

For example, as shown in table 3 (Employment and

Unemployment from 1960 to 1975), unemployment started to grow constantly right after the reform; at the same time the number of strikes reached its peak in the two years 1964-65 (see table 5 – Number of strikes from 1958 to 1969); also in the following years the number remained higher than the period before the reform.

Other elements to take into further account are the differences of unemployment rate among each republic (Table 4, Unemployment Rates in Yugoslavia by Republics and Autonomous provinces from 1965 to 1975) and, at the same time, the causes of strikes (shown in table 7, antagonists of workers in strike): the data witness that in these years there was a sort of *double movement of social polarization* among developed and less developed Yugoslav regions and, on the other hand, between the new rising technocracy and workers. This trend is testified, for example, the emigration. Authorities allowed people to have a passport and emigration was tolerated. In 1971 700,000 emigrant workers were censused, especially those who moved to Germany.²⁶⁵

However, the third main trend related to the increase of the disparities provoked by the “liberal” period was the dispersion of personal incomes and the rising of incomes inequality. On this point Flakierski stated that the increase of income differentials in the period across the reform “stands out very distinctly”:

²⁶⁵ J. Krulic, *Storia della Jugoslavia*, p. 83.

Although it is difficult to distinguish clear-cut subperiods of change, one stands out very distinctly: the period of 1964-1969, when we observe a substantial increase in relative dispersion of personal income. These years coincide with the *lasseiz-faire* period in Yugoslavia. This period comes to an end in 1971, and soon thereafter a decline of income inequality takes place. This decline intensifies in the 1980s, probably as a result of the economic crisis²⁶⁶

Usually, in socialist economic theory the two main labor sectors are the non-material and the material, the latter related to the material side of the production. In Yugoslavia the increase of income inequality was higher in the non-material sphere than in the material sphere, mainly because of the differentials between the privileged top-party leaders and administrative echelons on one side, and the clerical personnel on the other.²⁶⁷

The analysis related to income differentials deal with three main categories, interskill, interbranch and interregional differentials²⁶⁸.

While interskill²⁶⁹ differentials remained quite low, even if

266 H. Flakierski, *The Economic System and Income Distribution*, p. 22.

267 H. Flakierski, *The Economic System and Income Distribution*, p. 22.

268 See in particular H. Flakierski, *The Economic System and Income Distribution*, p. 22 to 44 and S. Estrin, *Income Dispersion in a Self-managed Economy*, in *Economica*, Vol. 48, no. 190, 1981, p. 181 to 194.

269 The interskill category was based on eight type of skill categories. With the 1965 reform just two categories took advantaged of the *lasseiz-faire* period: the

with 1965 reform increased, the interbranch and interregional income differentials were higher. In relation to the case of interbranch differentials, according to Flakierski «extreme differences in pay for the same job in different firms create substantial anomalies in the wage system. A messenger or a cleaning woman can earn more than an engineer, and a highly skilled worker more than a chief director of an enterprise, if the former happens to be employed in an enterprise with very low average pay».²⁷⁰

However, even if the income differentials tend to increase after 1965 reform, these differentials were extremely far from capitalist and western standards: the highest differential was still reasonable in relation to the differentials that occur in capitalist economies, which now days can reach also ratios of 500:1 between the highest and lowest incomes²⁷¹.

employees with full university education (category number I) and high skilled workers (category number V). The differentials in income distribution between these two categories and all the others (reported in note 105) increased because the coefficient of variation in the rise of incomes of the others categories was lower than employees' and high skilled workers'. «During the reform period of 1965-1970 – Flakierski wrote – when skill differentials increased, the only beneficiaries were the highly skilled manual workers and the top category of nonmanual workers (category I). The rest, obviously, were losers, and dropped on the income ladder».

The categories were:

- I Employees with full university education
- II Employees with 2 years of college or technicum
- III Employees with secondary education – gymnasium or technical school — lasting no less than 4 years after primary school
- VI Employees with primary general education (8 years)
- V Highly skilled manual workers
- VI Skilled manual workers
- VII Semiskilled manual workers
- VII Unskilled manual workers

Source: *Statistical Yearbook of Yugoslavia* (SGJ). See also: H. Flakierski, *The Economic System and Income Distribution*, p. 33.

270 H. Flakierski, *The Economic System and Income Distribution*, p. 33.

271 Two examples of 2008: <http://www.ilsole24ore.com/art/SoleOnLine4/Finanza>

2.4. The 1965 Reform and its Effects on Self-managed Enterprises

In previous paragraphs the 1965 reform has been analyzed in its main provisions, such as in its main social and economic effects. As it was stated earlier in the text, the reform was launched after a keen political debate within the Communists League, started in early Sixties, and after a slowdown of economy after the spectacular growth of Fifties. This mix of political and macroeconomic conditions was boosted due to the rising economic gap between Republics. Soon, the struggle between reformers and conservatives assumed an ethnic shape and later on an economic nationalism.

But what about self-management and market rules? As we have seen, the introduction of market mechanisms in relation to capitals allocation, in the effort of improving production efficiency, actually reached the issue: from 1961 to 1970 labor productivity improved for 80%.²⁷² At the same time the enterprises, due to the new taxation system, could dispose of a larger income share and new business oriented criteria entered in their managing. As Bianchini put it, with 1965 reform the control of surplus was transferred to direct producers²⁷³ and

[%20e%20Mercati/2009/04/stipendi-manager-new.shtml](#)

and 2013: http://www.huffingtonpost.it/2013/07/21/i-100-manager-piu-pagati-di-piazza-affari_n_3631145.html?utm_hp_ref=italy

272 D. Wilson, *Tito's Yugoslavia*, Cambridge University Press, 1979, chapter 3. Cited in J. Krulic, *Storia della Jugoslavia*, p. 83.

273 S. Bianchini, *Rinnovamento dell'economia*, p. 42.

central planning/state intervention was decreased. With the reform, enterprises actually had a larger range of business action.

Nevertheless, even though the effort aimed at strengthening the workers' collectives, the gap between workers and managers increased – as we have seen analyzing the main causes of strikes. In fact, even if enterprises were globally more autonomous, the relations *within* enterprises, due to new business oriented criteria and international market competition, polarized the role of managers and workers: in spite of being the same body – remember that means of production were *social* property –, they became counterpart.

Next paragraph is focused on the shapes of these rising social conflicts.

3. Between 1960s and 1970s: the relation between the 1965 Reform and the Social Conflicts arose among Technocracy, Bureaucracy and Working Class. The Issues of Nationalism and Nationalist crisis of 1971

The mid-1960s reform ignited radical changes in the Yugoslav society, as a climax of a liberal movement appeared from early 1960s. The introduction of market-mechanisms and a new business oriented approach led to new relations both in enterprises and in the political field. As we have empirically seen in the previous chapter, a number of conflicts between social groups grew dramatically – in particular between technocracy and workers at enterprises level and liberals and conservatives into the League of Communists. Moreover, nationalism and ethnic-conflict erupted and reached the climax five years after the reform, while economic disparities among areas increased significantly.

The analysis is here focused on social blocs – technocracy, bureaucracy, working class, such as liberals/conservatives – as well as on nationalism, *phenomenons actually linked one another in a dialectical polycentric interaction*; they occurred in the same years and, finally, were rooted in the background of a reform that ignited the changes previously analyzed from an economic standpoint. In this chapter the perspective is enlarged to the mentioned social phenomenons arose between the second half of 1960s and early 1970s.

After the Second World War the Communist leadership, following the Soviet model, adopted a federal formula to rebuild the state, with six socialist republics and two autonomous regions. At the same time, the Leninist orientations of Tito and Yugoslav Politburo were not called into question: the party was highly centralized and fostered a rigid central economic planning; thus, it was conceived as the vanguard of proletariat and as the institution charged to ferry the masses toward Communism: its Marxist-Leninist discipline was as orthodox as the Soviet's.

After the Cominform crisis (1948), as noted by Steven Burg, already with the Constitution of 1953 «the role of Republics began to increase significantly, and political influence, if not coercive power, began to federalize [...] with the increased role of Republics in political life came an increase in expressions of ethnic consciousness within the republics».²⁷⁴

In early 1960s, the communist leadership sought to keep the unity and the dialogue between ethnic groups with the cultural formula of *Yugoslovenstvo*, or Yugoslav consciousness,²⁷⁵ established on Socialist class consciousness and based on a keen national cooperation.

274 S. Burg, *Ethnic Conflict and the Federalization of Socialist Yugoslavia: the Serbo-Croat Conflict*, Publius, Vol. 7, No. 4, Federalism and Ethnicity, 1977, p. 120.

275 See Lampe, *Yugoslavia as History*, p. 282, and Burg, *Ethnic Conflict*, p. 120.

Subsequently, and precisely in the VIII Congress, the Party rejected the concept of Yugoslovenstvo. In the meantime, the 1963 Constitution went further in the decentralization of political power toward republican based party organizations. According again to Burg «the need, ability and tendency of republican leadership to represent vigorously the interests of their republics increased dramatically».²⁷⁶

We have already seen, from an economic point of view, that the movement toward liberalization was carried out through opening the economy to market pressures. At the same time, given the already mentioned disparities among developed and less developed republics, the ideological-economic conflict erupted between the so called conservatives, who sought to keep central planning and central allocation of capitals, and liberals, who, on the contrary, thought that only market rule could guarantee the best capitals allocation and development for each republic. With mid-1960s reform liberal coalition prevailed, also thanks to Tito support. Moreover, in 1966 the main opponent of liberal coalition, the Serbian Aleksandar Ranković had to resign after a political scandal in which was involved.²⁷⁷

This political conflict was also strictly linked to the conflict between republican representatives over the resources for

²⁷⁶ S. Burg, *Ethnic Conflict*, p. 122.

²⁷⁷ Rankovic used “behind the scenes” illegal methods to stop the reform. See Lampe, *Yugoslavia as History*, p. 279 and p. 284, and S. Burg, *Ethnic Conflict*, p. 124.

investments²⁷⁸ – which profited especially less developed republics.²⁷⁹

The distribution of resources, wealth and political power, especially in the light of increasing disparities among republics (consider just the differences between unemployment rates), led to ethnic based conflicts and nationalism. In relation to this aspect, Burg stated that «In Yugoslavia as in any poly-ethnic state, however, the political rhetoric which accompanies conflicts over the distribution of wealth or over the character of the political regime, especially when it becomes focused on changing the rules of decision making, carries the potential, if not controlled, to activate latent mass hostilities and to mobilize the emotional forces of aroused nationalisms, and thus to call into question the continuing existence of the federal union itself».²⁸⁰

However, the ethnic-based and nationalist conflict was just an aspect of the rising social conflicts of the 1960s. As aforementioned in the previous chapter as regard to the data of unemployment and strikes, it is more likely that this historical period was characterized by a *double movement of social polarization*, characterized at the same time by a rising conflict between republican-based political groups and, at the same time, between several social blocs such as technocracy and bureaucracy and furthermore workers as *third pole*. Of course,

278 S. Burg, *Ethnic Conflict*, p. 122.

279 J. Lampe, *Yugoslavia as History*, p. 276.

280S. Burg, *Ethnic Conflict*, p. 124.

the several sides of these rising social conflicts were crossed one another. This is the case of Croat nationalism, for example. As Stefano Bianchini noted, around nationalism an heterogeneous social bloc arose, even though it was aimed by different interests:

La costituzione di un blocco sociale attorno al nazionalismo non costituì un insieme omogeneo e privo di contraddizioni interne, ma piuttosto un coagulo di interessi anche fra loro divergenti che avevano radici, motivazioni e scopi differenti.²⁸¹

So, the following analysis will concern first the main features of the new emerging social blocs and then those of Yugoslav ethno-nationalism, trying to catch the material, social and cultural-ideologic relations between them.

However, prior to entering in the specific analysis of the phenomenon mentioned above, a complete definition of Michael Howard clarify the object of the analysis itself:

As a result of the constitution of 1963, the influence of the Party and state in enterprises was diminished, and a greater role for the market was established in coordinating production. A number of undesirable trends developed, prompting further reforms in 1974. Strata began to develop within the working class. The

²⁸¹ S. Bianchini, *Rinnovamento dell'economia*, p. 42

autonomy of some services enterprises, particularly banks, constituted new constraints on enterprises. Office holding in enterprises was dominated by local oligarchies, and executive and administrative personnel of the commune. The republics became stronger at the expense of the federal government. At the republic and federal levels assemblies were weakened to the advantage of conciliation committees and executives. In the political field system participation of professionals and managers outstripped that of workers²⁸²

The development of new social blocs. According to certain scholars, a *new class* emerged in the second half of Ninetieth century, originated from the increasing importance of technology and science in economic life. Severyn Bruyn stated that «special form of knowledge increasingly are required to operate corporations successfully. Corporations need the assistance of engineers, scientists, lawyers and a variety of other professionals to manage the complex system of work. These professionals now compose a distinct groups which occupies a place of *new authority and power* in the corporate economy» [emphasis mine].²⁸³

A similar thesis is exposed by Horvat in his main theoretical

282 M. W. Howard, *Market Socialism and Political Pluralism: Theoretical Reflections on Yugoslavia*, in *Studies in East European Thought*, Vol. 53, No. 4, 2011, p. 308.

283 S. T. Bruyn, *The Community Self-study: worker self-management versus the new class*, *Review of Social Economy*, Vol. 42, No. 3, Community Dimensions of Economic Enterprise, 1984, p. 338.

Marxist-oriented work, *The political economy of Socialism*; Horvat asserted that the old middle class disappeared for a “new middle class of professionals, technicians, clerical and sales personnel, and government employees, which was rapidly expanding—much more rapidly, in fact, than the working class”.²⁸⁴

This theoretical pattern can be useful applied to the case of rising technocracy in Yugoslav experience. As Bruyn put it, the general question was whether the new class retarded or destroyed the trend toward democratic self-management.

More specifically, Stefano Bianchini tried to catch the composition of this new middle-class. The Italian author argued that it was composed by the managerial stratus and enterprises technicians, banks managers, insurance companies and exporters, which represented also the most prominent element of the new nationalist wave.²⁸⁵

Prior to entering in empirical-based and theoretical analysis of this social trend, it is necessary a clarification about the use of the notion of social bloc instead of the notion of new class.

A debate between two Marxist economists, Charles Bettelheim and Paul Sweezy, can be useful to understand the phenomenon.²⁸⁶ According to Bettelheim, even tough in

284 B. Horvat, *The Political Economy of Socialism. A Marxist Social Theory*, Martin Robertson, Oxford, 1982, p. 42.

285 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 54.

286 The debate started in 1968 and ended two years later (1970) and concerned several theoretical and empirical questions as bureaucracy, market relations and Marxist theory in several socialist states as USSR, Czechoslovakia and Yugoslavia. In Italy the debate was edited in 1992 by Giorgio Riolo for the publishing company

relation to Soviet society, the development of a new middle-class was mainly a political problem: “proletariat loosed its *political* [emphasis mine] power to the advantage of a new middle-class”.²⁸⁷ Differently from Bettelheim, Sweezy argued that the development of a new class, the bourgeoisie, was both a political and economic tendency: market relations and rising middle-class were strictly related one another, in position of mutual dialectical interaction. According to Sweezy, from this interaction originates a “dominant bureaucratic stratus, but not yet a dominant class”²⁸⁸; at the same time, due to the failures of central planning, governments tend to recurring to capitalist techniques, giving to enterprises managers new powers and to market-relations the task of economic regulation. Under these circumstances, the *real* power on production means rests in the hands of a managing elite: this group “owns” the means of production. But just *after* this trend, this social group tend actually to developing into a class.²⁸⁹

The theoretical pattern developed by Sweezy can be easily applied to Yugoslav conditions; in fact, technocracy – mainly composed by enterprises managers – was *at least* strengthened by 1960s reform which fostered the introduction of market mechanisms, but actually it remained a *social bloc* and did not evolve into a class. According to Sweezy, this process can lead

Editori Riuniti, with an introduction by the economist Gianfranco La Grassa, with the title *Il socialismo irrealizzato*.

287 C. Bettelheim, *Il socialismo irrealizzato*, p. 19.

288 P. Sweezy, *Il socialismo irrealizzato*, p. 32..

289 C. Bettelheim and P. Sweezy, *Il socialismo irrealizzato*, p. 32-33.

to new forms of legalized private ownerships: in this case we can talk about of a new dominant class.

Now, also in relation to the struggle of social blocs there were several levels of economic and political conflict; a sort of *triadic nexus* with three distinct poles: bureaucracy, technocracy and working class.

The first side of this triadic nexus was anchored to the basic units of the Socialist country, the enterprises: as we have already analyzed empirically in relation to strikes data, new powers of technocrat cadres led to a conflict with workers. According to Favaretto, the informal influence of managers and technicians on decision-making process brought to an “occupation” of enterprises' self-management organs.²⁹⁰ Especially in the light of a not well-established working class tradition, and, generally, of an unskilled working class.

So, workers started to lose their economic and political centrality, even tough *always mediated and indirectly represented by a Leninist party as League of Communists was*. As Bianchini noted, were first the technocrat sectors that advanced the thesis of an objective impossibility of a direct enterprises management by workers, due to the technical evolution of labor in contemporary societies and to the market rule of supply-demand.²⁹¹

The League of Communist was aware of the social conflict

290 T. Favaretto, *Aspetti della conflittualità*, p. 150.

291 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 55.

arose around two interpretations of self-management: self-management of direct producers or self-management of managers. The Croat Bakarić, for example, in 1970 spoke about this conflict:

Quando parlo di ciò che occorre risolvere – allora si deve tener presente che esiste uno scontro sociale. Questo scontro si rivela da noi in modo molto serio, e pone la domanda se svilupperemo l'autogestione sulla base dell'autogestione dei produttori diretti o sulla base dei managers. Questo è uno scontro sociale profondo. Anche da noi [Croatia, e. n.] aumenta. Ne stiamo parlando, ma non l'abbiamo posto all'ordine del giorno così come facemmo con il conflitto fra statalismo e autogestione. Tuttavia esso sta crescendo e sotto I nostri occhi, in questo campo, si sta svolgendo una considerevole lotta violenta²⁹²

In the meantime, while this process/conflict was developing in the basement of society, another conflict was happening into the top, that is the League of Communists. In fact, technocracy

292 V. Bakarić, *Iz razgovora u redakciji NIN-a*, Beograd, 28 October 1979 in V. Bakarić, *Socjalistički samoupravni i društvena reprodukcija*, quoted in S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 59. Translation: «When I speak of what it's due to be resolved – we have to bear in mind that there is a social conflict. This conflict call into question whether we want to develop the self-management of direct producers or of managers. This conflict is going in depth. Also in Croatia is increasing. We are talking about it, but it's not central in our debate as we did with the conflict between etatism and self-management. Therefore it is growing and, in this field, is going on a violent struggle».

actually found in the liberal coalition – also in this case with a mutual interaction – its senior partner. On this issue, for example, according to Lampe in the elections of 1969 a number of candidates came from enterprises management or were professionals without a long party career:

A significant number of candidate were now enterprise managers or professionals with credentials beyond their party cards. Such people were the ascendant group in party membership, as workers and peasants fell back to one-third. *They seemed natural allies of the liberal coalition* [emphasis mine]²⁹³

Sweezy, explicitly referring to Yugoslav case, noted that this process toward a new “real ownership” of means of production by a managing elite led to a. an erosion of the powers of old dominant stratus; and b. to a conflict between old conservative bureaucrats and liberals.²⁹⁴

Actually, this was the process ignited in 1960s that, as mentioned earlier in the text, saw a first victory of liberals with 1965 reform and definitely after Ranković case (1966).

However, against the new rising technocracy there was a fierce resistance of bureaucratic state sectors, even after Ranković case. As suggested by Bianchini, the bureaucratic resistances slowed down the application of the reform and, at

²⁹³ J. Lampe, *Yugoslavia as History*, p. 300.

²⁹⁴ P. Sweezy, *Il socialismo irrealizzato*, p. 32.

the same time, blocked the Seven Year Plan of 1964-1970.²⁹⁵

Maybe, it can be argued that if a coalition developed around the nexus liberals–technocracy, the other developed around the nexus centralist²⁹⁶–bureaucracy. According to Bianchini, in the end of 1960s and in the light of rising conflicts between republics, the federal bureaucracy represented itself as the only force that could maintain the unity of the Federation. Moreover, with decentralization of political and economic power, a bureaucratic sector started to developing within republican level:

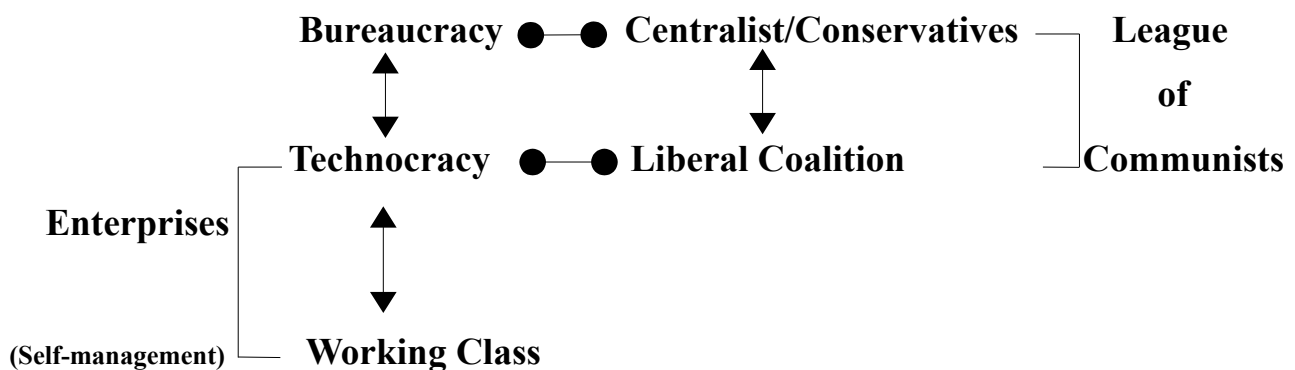
Il trasferimento, infatti, dei poteri dalla federazione alle repubbliche e alle regioni autonome che, già iniziato negli anni sessanta, aveva colto un significativo riconoscimento con gli emendamenti costituzionali del 1967 e del 1968, in cui viene precisato il valore e l'identità culturale, sociale ed economica delle nazioni jugoslave e conseguentemente dilatata la funzione del Consiglio delle nazionalità, aveva per contro aperto la via ad una espansione dei poteri di intervento da parte dell'apparato repubblicano, il quale tese a concentrare su di sé il massimo delle competenze fino a riproporre di fatto un monolitismo statale sostanzialmente identico a quello federale degli anni precedenti alla riforma del

295 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 55.

296 Also called conservatives.

1965²⁹⁷

To conclude, a certain number of economic, political and social conflict arose in these years: the triadic nexus among technocracy – the rising social bloc –, bureaucracy and working class was characterized by a conflict between technocrat cadres and workers in enterprise level and, at the same time, between liberal coalition (linked to technocracy) and centralist bureaucracy both at a republican-federal level and in the League of Communists. I provide to frame the conflictual relations in next **Figure 2.1**²⁹⁸.



The first part of the paragraph 3 concerns the analysis of the

297 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 49. Translation: «The transfer of power from the federation to the republics and to the autonomous regions, started in the 1960s, found an institutional recognition with the amendments of 1967 and 1968, with which the cultural, social and economic identity of Yugoslav nations was definitely accepted, increasing the role of the Council of nationalities. This trend increased the power of republican bureaucratic apparatus, which tent to centralize the competencies, reproducing *de facto* a state monolith identical to the federal one before 1965 reform».

298 *Legenda*: ●—● = Alliance; ◄—► = Antagonistic relation; □ = Place of conflict

first side of the *double movement of social polarization*. This side can be divided into a triadic nexus with three major elements – technocracy, bureaucracy, working class – and different levels of social conflicts – from enterprises to the League of Communists.

The other side of the double social polarization movement concerns the increasing disparities among republics and, especially, nationalism and the nationalist crisis of 1971-1972.

Nationalism and nationalist uprisings of 1971-1972 embodied one of the major crisis of the *second* Yugoslavia. According to Krulic, the period between 1945 and 1965 was the only peaceful in the relations among Yugoslav nationalities.²⁹⁹

From a methodological point of view, the division of the chapter between the analysis *first* of social blocs and then of nationalism do not implies that the phenomenons are unrelated. On the contrary, the analysis of material relations among social groups and the question of nationalism are strictly linked; analyzing the first – in the light of the post-reform context – we can catch the conditions of possibility of the rising of the nationalist discourse (in particular in Croatia and Slovenia).

²⁹⁹ J. Krulic, *Storia della Yugoslavia*, p. 88.

So, several explanations are given to the rising of Yugoslav nationalism, first of all starting from the reconstruction of the historical context in which nationalism could develop.

According to Horvat, for example, nationalism arose in the aftermath of the decentralization, democratization and individualization of society, not as a necessary result of these phenomena but as a consequence of the haphazardness of that process.³⁰⁰ At the same time, while economy was slowing down and unemployment increasing, the feeling of insecurity improved; in relation to this aspect, Horvat noted that anxiety and insecurity found an outlet in the national feelings:

In such a situation the search for support and identity is naturally expressed in identification with the social group within which the individual experiences fateful changes in his life. Thus national feelings become hypertrophied. One's own failures and anxieties – which are numerous in times of rapid and great changes – are projected onto the nationality which is for various reasons oppressed or enraged, and one's security is discovered in the belief that by coming out militantly and aggressively in association with members of the same nationality, the position of the nationality will be improved and stabilized.³⁰¹

300 B. Horvat, *Nationalism and Nationality*, in *International Journal of Politics*, Vol. 2, No. 1, The Nationalities Question in Yugoslavia, 1972, p. 20.

301 B. Horvat, *Nationalism and Nationality*, p. 21.

At the same time, next to the link between nationalism and economic decline, the analysis of Horvat concerns other key elements to understand the background in which nationalism could develop. For example, the gap between ideals of the revolution/post-revolution and its practical application led to frustration and apathy: “from there the road naturally continues to nationalism”³⁰². At the same time, the failure of full realization of self-management, to Horvat, was a missed chance to replace village and patriarchal integration with integration in the collective, social services and sociopolitical activity.³⁰³

However, the phenomenon of nationalism must be framed also in relation both to the organized social forces which fostered a nationalist political struggle³⁰⁴ and, at the same time, to the cultural and historical elements which entered in nationalist lexicon and propaganda.

From a theoretical point of view, according to the thesis of Roger Brubaker, “nationalism is produced – or better, generated – by political fields of specific kind”.³⁰⁵ The author, moving away from structuralist conceptions of nationalism, asserts that it is – as more generally the nation – “not a

302 B. Horvat, *Nationalism and Nationality*, p. 21.

303 B. Horvat, *Nationalism and Nationality*, p. 21.

304 According to Horvat, even if the author inserts them as secondary elements, the social forces which were nationalistic oriented were for example the petty bourgeoisie, the antisocialist opposition and religion people. See *Nationalism and Nationality*, p. 21.

305 R. Brubaker, *I Nazionalismi nell'Europa contemporanea*, 1998, Editori Riuniti, Roma, p. 23. Original title: *Nationalism Refrained*, Cambridge University Press, 1996.

substance, but an institutionalized form, as well as not an existing community but a practical category; finally, it is not an entity but a contingent event”.³⁰⁶

Brubaker pointed out the artificial aspect of nationalism, conceived as a *practical* category useful to carry on a political battle aimed at *institutionalizing* the nation.

Even though in relation to Soviet case, Brubaker noted that the regime repressed nationalism but, at the same time, institutionalized the status of *territorial nation* and *ethnic nationality* as fundamental social categories.

In relation to Yugoslav case, the theoretical framework of Brubaker can be partially applied; actually, as we will see later on, especially with 1974 Constitution the status of nation was institutionalized after the repression of nationalist uprisings in 1971-1972.

From another standpoint but in relation to this issue, John Allcock wrote about the institutionalization of the nations and the contradictions that this element generated:

So, although the officially sanctioned account of Yugoslav history counterposed “nationalism” and “communism” and there was a constant series of attacks on “chauvinism”, “irredentism” and “nationalism”, the regime itself elevated the republics and provinces to the status of being the only legitimate bearers of openly

306 R. Brubaker, *I Nazionalismi*, p. 22.

competing interests within the system. In this way, it prepared for itself a major contradiction within which it became ensnared.³⁰⁷

However, prior to analyzing the cultural-artificial elements of Yugoslav nationalism(s) and its discursive devices, the material – both economic and political – element should be first taken into consideration as the basis from which the nationalist discourse developed. In other words: what social forces nationalism was allied – better: which forces produced a nationalist discourse – and on which – class? – interests it was based.

As we have already seen, the economic disparities among developed and less-developed regions actually increased with mid-1960s reform; according to Burg «during the period 1966 to 1971, ideological and economic conflicts between the leadership of the developed and less-developed republics did, in fact, become intertwined with, and charged of mutually antagonistic nationalism».³⁰⁸

So, nationalism was linked to pressures developed at republican level, aimed at fostering the transfer of economic and political power from the Federation toward republics themselves. Bianchini noted that, for example, Croat nationalists sought to find alliances into republican state

307 J. Allcock, *Explaining Yugoslavia*, p. 309.

308 S. Burg, *Ethnic Conflict*, p. 124.

apparatus.³⁰⁹

In general, the struggle over the allocation of resources and capitals, the distribution of wealth, the question of solidarity vs. efficiency and the new power of republics in decision-making became several issues of mutual antagonism among several areas.

Some examples should clarify the entity of this growing conflict: in 1966, i. e., was called into question the special Fund for the accelerated development of the four underdeveloped regions. The representatives of Republic of Bosnia and Hercegovina objected the allocation of resources for the period 1967-70: that republic called for a special meeting of the Chamber of Nationalities to discuss the entire issue. In this case, however, the requests of Bosnia and Hercegovina were not considered an expression of nationalism due to the poly-ethnic character of the republic. Nevertheless, the issue posed by Bosnia and Hercegovina called into question whether constitutional changes were required to increase the importance of republics in decision-making.³¹⁰

The results of the Bosnian initiative were not expected for long. In 1967 were launched several amendments which foresaw that the Chamber of Nationalities met *separately* and mandatory “to consider . . . drafts of the Social Plans of Yugoslavia, bills regarding the determination of the sources

309 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 49

310 S. Burg, *Ethnic Conflict*, p. 125.

and kinds of revenue of sociopolitical communities, and drafts of basic general law”.³¹¹ Now, the Chamber was actually competent about economic matters, acting as a separate parliamentary body.

As Burg put it «the process of amendment demonstrates the potential importance of even purely formal constitutional provisions for decision-making in the politics of a federal system in which there exist objective bases for a conflict of interests between the constituent units».³¹²

Similarly, in 1968 the legal order of the autonomous provinces of Vojvodina and Kosovo was regulated by a Constitution, while heretofore they were regulated by two Statutes. At the same time, ethnic groups, with the status of *national minorities*, were given the same rights of nations.³¹³

Moreover, in the few years that followed the mid-1960s reform, the leitmotiv of “exploited Croatia” began one of the most powerful discursive devices introduced in public opinion; according to these positions, Serbs were favored in order of resources allocations and Croatia, the richest nation after Slovenia, paid more than how received.³¹⁴ Krulic noted that some argued that Croatia had never been so exploited, even by

311 Chamber of Nationalities, *The Constitution of the Socialist Federal Republic of Yugoslavia [with] Constitutional Amendments*, Belgrade: The Secretariat of the Federal Assembly Information Service, 1969, article 190. Cited in S. Burg, *Ethnic Conflict*, p. 126.

312 S. Burg, *Ethnic Conflict*, p. 124.

313 S. Burg, *Ethnic Conflict*, p. 124.

314 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 63 and J. Lampe, *Yugoslavia as History*, p. 300.

Austria-Hungary.³¹⁵

This kind of nationalism had a clear economic basis and, therefore, it developed first as an *economic nationalism* and then as an ethnic conflict. The Croatian leadership, during 1970, demanded a reform of the banking system – with a separate Bank for Croatia³¹⁶ –, changes in foreign trade and foreign currency and the devolution of greater powers over investment policy.³¹⁷

However, the economic nationalism was the ground floor of the nationalist question arose in the post-reform period. Next to a nationalist economic issue, in fact, a cultural one took place, fostered by the main Croatian cultural association, *Matica Hrvatska*. This association led other seventeen cultural organizations³¹⁸ and became the collector of all Croatian nationalist issues from 1967. As Bianchini put it, this cultural association gathered economists, historians, writers such as university members, who gradually began to control the major cultural institutions of the Republic. Their battle was related both to cleanliness of Croatian language and to Croatian economic interests.³¹⁹ They accused the Serbian language to be *de facto* the official language of the federation – a kind of linguistic imperialism which was linked to an historical issue,

315 J. Krulic, *Storia della Yugoslavia*, p. 90.

316 J. Lampe, *Yugoslavia as History*, p. 302.

317 S. Burg, *Ethnic Conflict*, p. 133.

318 S. Burg, *Ethnic Conflict*, p. 127.

319 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 51.

that is the Serbian domination over Croatia.

So, the nationalist pressures increased significantly. The escalation was reached in 1971, during the discussion of several amendments of the federal constitution; in the meantime, nationalistic activity and requests were becoming more intense.³²⁰

These amendments, according to Bianchini, even went in the direction of a Confederation: the sovereignty of the republics (even if in the unity of Yugoslav market) was recognized; an equal representation of republics was established in the Federal government as in the collective state presidency;³²¹ moreover, in the Chamber of people every republics had a veto power, even tough in relation to a closed list of matters.

The amendments of federal constitution necessitated, at the same time, of amendments of republican and provincial constitutions. Even if the federal amendments went into the direction of enlarging republican competences, accepting *de facto* several nationalist-oriented issues, the pressures were addressed to the Croatian leadership to propose more radical changes³²². In Zagreb the *Maspok* (national mass movement)

320 S. Burg, *Ethnic Conflict*, p. 127

321 "Tito – as Lampe suggested – had agreed at the age of seventy-eight to authorize a collective state presidency [...] Tito remained president of the presidency". The presidency wasn't nothing but a collegiate presidency in which every republic had two representatives while the autonomous provinces just one. Lampe, *Yugoslavia as History*, p. 305.

322 S. Burg, *Ethnic Conflict*, p. 137 and S. Bianchini, *La questione jugoslava*, p. 119.

organized mass protests, even using violence³²³, speaking about the necessity of bringing together all the Croats in a single state. Tuđman, at the time young nationalist, proposed a Croatian army; then was raised the issue of an ONU membership for Croatia.³²⁴

In the meantime, in 1971 within the League of Communists prevailed the position of Bakarić, who proposed to define the Croat republic in relation to *all* ethnic minorities, even the Serb. Nationalists rejected the proposal of Bakarić and fostered the idea of a rigid single ethnic-based – the Croatian – community. The reactionary elements of Croatian nationalism were becoming gradually more and more evident. Moreover, the Croatian party was divided over nationalism: the position within the party were not related with the quarrel between centralist and those who wanted more decentralization but, as suggested by Burg «the struggle was between those who sought to preserve and extent the hard-won rights of the republics while at the same time controlling the excesses of nationalism, and those who appear to have forged alliance with nationalists and were seeking to use the force of the nationalist wave to break down resistance to further devolution of power to the republics».³²⁵

However, as noted by Bianchini, even tough this attempt led to a nationalist strike in Zagreb the 28 November, actually it

323 S. Bianchini, *La questione jugoslava*, p. 119.

324 S. Bianchini, *La questione jugoslava*, p. 118.

325 S. Burg, *Ethnic Conflict*, p. 136.

was based on a political evaluation of relations of forces with the League of Communist later proved to be wrong:

I nazionalisti pensarono, sulla base di un calcolo politico dei rapporti di forza con la Lega poi dimostratosi errato, di poter acuire al massimo la tensione per impedire qualsiasi soluzione che negasse il carattere monoliticamente croato della repubblica³²⁶

Even the fascist ustaša – from Munich – sought to take part in the quarrel appealing to “communists nationalists within the League of Communists”.³²⁷

Tito, one of the most skilled politicians of the twentieth century, was aware of the dangers that nationalism could led to. In a speech in July 1971 in front of the Executive Committee, the Marshall predicted that the *excuse* of the *national interest* could led to a new 1941, to the breakup of the country after his death and to the intervention of the “great powers” and their army in Yugoslavia. Things actually happened ten years after his death:

Col pretesto dell'“interesse nazionale” tutto ciò va a finire nella controrivoluzione... in certi villaggi, i serbi, si armano... volete tornare forse al 1941? Sapete che altri

326 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 67.

327 S. Bianchini, *Rinnovamento dell'economia e spinte nazionaliste fra il 1965 e il 1971*, p. 67-68.

verranno, se qui si produce il disordine? Io preferisco riportare l'ordine con il nostro esercito piuttosto che permettere ad altri di farlo; altrimenti, quando non ci sarò più, il paese esploderà. Il nemico interno gode di molti appoggi all'esterno. Le grandi potenze utilizzeranno tutti gli elementi utili, comunisti o no... la Matica Hrvatska è diventato un partito politico più forte di voi³²⁸

So, the Tito's reaction against mass protest and nationalist crisis of 1971 was strong and determined: the Croatian party leadership, in particular Mirko Tripalo, Savka Dabčević Kućar, Janko Bobetko and others, were accused by Tito of having lost the control of the situation. They had to resign. Mass protest in Zagreb were repressed and some nationalists as Tuđman arrested.³²⁹

In the meantime, other members of the League of Communists were purged, in particular those who were accused of liberalism. This was the case, for example, of the Slovenian Kavčič, of the Serbs Latinka Perović and Marko Nikezić, of the Bosnian Osman Karabegović and many

328 J. Krulic, *Storia della Jugoslavia*, p. 90. Translation: «With the excuse of “national interest” this leads to counterrevolution. In some provinces, the Serbs get nervous and arm themselves. Do you want to go back to 1943? ... You know that others will come, if here disorder rules? I prefer to restore the order with our army rather than to let others doing that. Otherwise, once I will be gone, the country will explode. The domestic enemy has got a lot of foreign ties. The superpowers will use all the useful elements they could dispose of, communist or not... Matika Hrvatska has become a political party more powerful than you are.».

329 S. Bianchini, *La questione jugoslava*, p. 119.

others.³³⁰

Bianchini noted that with the generalized repression of several party leaders ended a political, institutional and economic conflict. But even more important was the fact that a young and dynamic generation was cut down, while remained standing the old Partizan and Leninist generation:

Alla fine restava in piedi solo la vecchia generazione partigiana e leninista legata a Tito, la cui forza riformatrice rimaneva condizionata all'autoritarismo, fatto che la rendeva incapace di parlare ai giovani e alle donne, la isolava culturalmente, la esponeva al consenso servile di burocrati e loschi affaristi.³³¹

Nevertheless, there was not a return to centralism. As noted by Burg «*After* the Croatian Party leaders resigned, amendments to the Croatian Constitution granted increased recognition to the Croatian literary language, and federal legislation granted even greater control over foreign currency earnings to economic enterprises than had been demanded by the Croatian leadership during the stalemated negotiations of 1970». ³³²

330 S. Bianchini, *La questione jugoslava*, p. 120.

331 S. Bianchini, *La questione jugoslava*, p. 120. Translation: «Eventually, just the old partizan and Leninist generation linked to Tito was left standing. Its force was established on authoritarianism: for this reason it was separated from civil society, unable to speak to young people and women, culturally isolated and exposed to the consensus of slavish bureaucrats and corrupted businessmen.»

332 S. Burg, *Ethnic Conflict*, p. 139.

Something really similar to what Brubaker writes about the Soviet relation to nationalism, as mentioned at the beginning of the chapter: the author argues that the Soviet regime, far from repressing the status of nation tout-court, repressed *nationalism as a political movement* while in the meantime institutionalized the *territorial status of nation* and *the ethnic nationality* as fundamental sociopolitical and institutional categories. In this way, according to Brubaker, the regime created – accidentally – a political field with a strong tendency to nationalism. Moreover, the status of nation and ethnic nationality were strengthened as fundamental cognitive and social forms.³³³

Generally speaking, the theoretical constructivist approach to nationalism captures some of its essential aspects, that is the *artificial* nature of nation, its essence as an *institutionalized form* rather than a substance and, at the same time, not as an abstract entity but as a *practical category*. From the nationalist perspective, nations do exist *before* nationalism, *before* the struggle for independence and autonomy. Intentionally or not, nationalists do really believe in the existence of the myth of the nation – usually as something initially “pure” and later corrupted by external forces.

Also for this reason nationalist forces tend to produce an historical discourse as strong as artificial: the use of the past as a series of mythologies is useful to legitimate a political and

333 R. Brubaker, *I Nazionalismi*, p. 23-24.

economic struggle in the present – for the autonomy, independence, secession etc.

Moreover, in relation to the discursive devices developed in relation to the “nationalist question”, what here really matters is not just the “discursive statement” of nationalism in itself, but what Michel Foucault called *the conditions from which those statements can rise*, that is a sort of historical *a priori* that set the possibility to understand the *conditions of possibility* of a discursive strategy. According to the French philosopher, this *a priori* is something that do not escape from historicity and, at the same time, is not a discursive structure unrelated from the historical events.³³⁴

For these reasons the discursive strategy – concerning economy, history etc. – related to nationalism must be planted in the historically determined context taken into account, looking to the groups who hold the power, to the specific material interests related, for example, to a social bloc or to a class, such as to the cultural and social dynamics etc.

The rising of Yugoslav nationalism in some key republics such as Croatia and Slovenia, few years after a fundamental reform, must be contextualized in the light of the historical-economic juncture and of the social forces that fostered this kind of *strategic* discourse. As we have seen in relation to Croat crisis, the nationalist discourse was a sort of unifying element which held together different groups and interests,

³³⁴ M. Foucault, *L'Archeologia del sapere*, p. 170-171.

such as different issues: economic, political, cultural, historical.

Then, while a discursive strategy sought to reach hegemony, another was declining: the socialist. If organized blocs/classes and discursive strategies are strictly linked one another, maybe the weakening of the socialist discourse showed *at least* that Yugoslav communist leadership loosed its capacity to mobilize people around the Party as happened in the war against Nazi-Fascism or in aftermath of the breakup with Cominform. In the second case, for example, the discursive mechanism developed by Communist leadership produced an historical discourse useful to demonstrate that the aspiration to self-management of Yugoslav people emerged *before* the breakup with Cominform, and was the *a-priori* cause that led to the conflict with the USSR – of course, things were actually quite different: self-management was the main element through which Communist leadership sought to restore Party's legitimization and mobilize the masses, but *after* the crisis with Cominform.

Probably, next to the lack of a *third*³³⁵ strong ideological and political mobilization, the working class loosed or better lowered its role first of all in the enterprises and then, indirectly, in the Party.

Horvat argued that in these years started to develop a dualistic system in which the political «authoritarianism of

335 The third because the first ideological mobilization concerned the war against Nazi-Fascism and the second occurred after the conflict with Cominform.

political superstructure came into conflict with self-management of the rest of the system»³³⁶. In reality, self-management was crushed both by political authoritarianism and technocrat cadres.

For this reason, in the attempt to stop both liberal coalition and technocracy – umpteen proof of their ties? –, the duo Tito-Kardelj – after the purges in the Party in early 1970s – introduced, between 1974 and 1976, a new Constitution and a new reform addressed to the strengthening of self-management. The Yugoslav socialist *construction site* was open again.

4. Yugoslav Socioeconomic and Political Conditions in 1970s

In the beginning of 1970s the Yugoslav federation appeared deeply transformed from several points of view. As we have seen earlier, on one hand the introduction of market mechanisms, with the effort of open Yugoslav economy to international division of labor and increase labor productivity, provoked several negative phenomena as unemployment – characterized by far different average rates in developed and less-developed republics; emigration; disparities between enterprises individual goals and social planning;³³⁷ income

³³⁶ B. Horvat, *Nationalism and Nationality*, p. 22.

³³⁷ T. Favaretto, *Origini e sviluppo della crisi Jugoslava. Un tentativo di interpretazione*, in *L'Enigma Jugoslavo. Le ragioni della crisi*, cit., p. 21.

differentials due to market position and regional disparities in the allocation of World Bank Loans;³³⁸ slowdown of growth; inflationary pressures.³³⁹

From a sociological point of view, in 1970s Yugoslav society was deeply changed in comparison with the previous decade. Rural world lost its centrality in favor of industrial world, and along with industrial world the sector of services and facilities began to develop. Moreover, after reaching its peak by 1973 – one million emigrants –, emigration decreased. Many Yugoslavs returned in their homeland bringing with them elements of the western culture. Yugoslav leadership sought to stop the diffusion of those models, and Tito himself criticized the “agnosticism of young people”. Somehow, the new “consumerist models” imported by Western capitalism undermined the ideological force of socialism and its historical categories as class and nation.³⁴⁰

At the same time, social and regional disparities increased: as noted by Tito Favaretto, in self-managed enterprises the technocracy, a social strata linked with the new technical requirements of production, “occupied” the self-management organs,³⁴¹ while economic disparities between republics

338 S. Woodward, *Competition Claims and International Adjustment in Yugoslavia*, in *International Organization*, Vol. 40, No. 2, *Power, Purposes and Collective Choices: Economic Strategy in Socialist States*, 1986, p. 526..

339 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 11.

340 R. Segatori, *Dall'autogestione solidale all'eterodirezione conflittuale: origini e sviluppo del “paradosso jugoslavo”*, in *L'Autogestione jugoslava*, p. 95.

341 T. Favaretto, *Origini e sviluppo della crisi Jugoslava*, p. 21. See also, by the same author, *Aspetti della conflittualità e della distribuzione del potere sociale nell'impresa autogestita*, in *L'Autogestione Jugoslava*, cit., p. 150.

gradually and dramatically increased – in this respect see paragraph number 2.3 and specifically table number 4 on unemployment data for each republic.

Moreover, for the first time the interests of each republic were openly conflictual. Susan Woodward noted that the liberals came from outward-oriented areas (especially cities) and in technologically advanced firms and export sectors, while conservatives politicians tend to come from interior and poorer regions, which demanded more protection and investments by Federation and so fostered a centralized economic policy.³⁴²

Liberal coalition could not become an open party or at least a movement because of the single-party nature of Yugoslav political system. However, this did not block the alliance of liberals with technocracy. Moreover, in particular in Croatia, the struggle conducted by liberals over republican control over richness and surplus produced – fostered by liberals, hegemonic in the League of Communists of Croatia – “flirted” with nationalism or, at least, did not strongly prevent nationalist uprisings.

From a macroeconomic point of view, some of the problems already appeared in late 1960s increased in the following decade, in particular the issues of growing foreign trade deficit and foreign indebtedness. As argued by Vacić, if in the twenty-

³⁴² S. Woodward, *Competition Claims and International Adjustment in Yugoslavia*, p. 514.

year period of 1947-1966 the trade deficit averaged no more than \$20 million dollar a year, after 1967 it grew exponentially: in the period 1967-1972 it grew to more than \$850 million dollars, reaching \$2.5 millions in the following five years and \$6.2 billion annually in 1977-1981. The peak was reached in 1979, with \$7.9 billion. The export/import ratio declined to 63.7 percent in 1967-1971, to 58.8 percent in 1972-1976 and in 1979 it fell below 50 percent.³⁴³

The increases of foreign trade deficit and social consumption (compared to national product) push up the country's debt at fast rates, in particular from 1971.³⁴⁴ In 1969 the country's net debt was \$1.7 billion, while by 1981, as a part of world debt crisis, it reached the peak of \$18.6 billion net.³⁴⁵

At the same time, the level of consumption in 1971-1975 rose on an average of 7.6 percent a year while in 1976-1980, as highlighted by Vacić, it grew by 8.3% more than gross social product.³⁴⁶ The main problem related to the imbalance between social consumption and social product concerns the growing of social indebtedness: even if living standards may improve, when, as happened in Yugoslavia by 1979, the social

343 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, in *Eastern European Economics*, Vol. 25, No.2, Yugoslav Perspectives on the Self-management Economy and East-West Trade, 1986-1987, p. 7.

344 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, 7.

345 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, p. 7.

346 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, 8.

consumption surpass the production by one-tenth³⁴⁷, actually the imbalances in the structure of consumption and production increase such as the indebtedness of the country.

However, the investments were not reduced and continued to grow at fast rates: from 30% in 1966-1975 to 34% in the period 1976-1979: “investment in Yugoslavia expanded independently of the country's real possibilities”.³⁴⁸

At the same time, the former Yugoslavia, differently from other socialist countries, relied – also because of the break-up with USSR – on foreign capitals and markets. According to Woodward, the economic policy of the country was based on the open participation in international economy – in the previous chapters we have already analyzed the application for international economic institutions as GATT – because of the need to foster fast development, transforming the country in an advanced industrial economy and thus reducing the foreign vulnerability of the country itself.³⁴⁹ To reach these goals the country has always relied on external capital resources. These resources could not be based on direct foreign investments – that is, private capitals – because of the socialist nature of the country and the social ownership of the means of production, so the country always recurred to foreign aid and loans: “the

347 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, 8.

348 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, p. 8.

349 S. Woodward, *Competition Claims and International Adjustment in Yugoslavia*, p. 509.

more aid, the faster socialism will grow in our country”, remarked Marshall Tito.³⁵⁰

So, this economic policy made Yugoslavia the most trade-oriented socialist country. Its gross national product involved in foreign trade was between one-third and one-half of the total volume of trade.

The reliance on foreign loans and the importance of foreign trade had both positive and negative sides: if, in particular in the 20-year trend of world economic growth (after II World War) Yugoslav could reach some of the highest growth rates in the world, at the same time the country depended on world market and global economic conditions. So, when world economy gradually slight in recession and crisis in the aftermath of the first oil shock by 1973, the exposure of the country to international conditions *de facto* weakened its position.

Prices of petroleum-related goods arose causing supply shocks, and the recession in OECD (Organization for Economic Cooperation and Development) economies had negative effects on Yugoslav exports. 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

350 S. Woodward, *Competition Claims and International Adjustment in Yugoslavia*, p. 509. The author adds: “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”.

1.6 percentage point decline in Yugoslav exports”.³⁵¹

According to Woodward “the recession in OECD economies cut demand not only for Yugoslavia's tradeable goods, such as shipbuilding, tobacco, and nonferrous materials, but also for the invisible goods so important to its trade balance – temporary labor, transport services, and tourism”.³⁵²

Vacič argued that “Yugoslav's economic difficulties of recent years [the author's wrote his essay in Winter 1986-1987] are also partly the consequence of changing and, in many respects, worsening international conditions”.³⁵³ In particular, the author reported five factors that had negative repercussions on Yugoslav economy:

- Yugoslavia's export prices arose slower than import prices: trade deteriorated by about 9 percent over 1971-1981;

- from 1973 (the first oil shock) energy prices arose, and the share of fuels in the total value of Yugoslavia's imports grew; moreover, the share exceeded 23% in 1980 and 1981, that is in relation to the second oil shock;

- the recession that in the late 1970s and early 1980s took place in Western economies had relevant consequences on Yugoslav economy, in terms of: a. increasing difficulties to expand exports; b. narrowing the possibility to improve

³⁵¹ L. D'Andrea Tyson, *The Yugoslav Economic System and Its Performance in the 1970s*, in *Institute of International Studies*, University of Canada, Berkley, 1980, p. 92. Cited in S. Woodward, *Competition Claims and International Adjustment in Yugoslavia*, p. 509.

³⁵² S. Woodward, *Competition Claims and International Adjustment in Yugoslavia*, p. 526.

³⁵³ M. Vacič, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, p. 8

balance of overall payments;

- the rising unemployment in Western economies reduced the number of Yugoslav employees in that countries from about 1.1 million in 1973 to 760,000 in 1982;

- *last but not least*, the two oil shocks – ignition point of world recession and crisis – and in particular the second provoked, between late 1970s and early 1980s, an increasing of world interest rate which boosted Yugoslav foreign debt: “the debt continued to grow, moreover, as a result of rising trade deficits over the past three years. In fact, interest payments in 1982 were almost three times larger than in 1979 – \$1.8 billion compared with \$60 billion”.³⁵⁴

However, according to the author, all the factors mentioned above were not as “decisive” as the domestic weaknesses; the external conditions just concurred to intensify the country's economic recession.³⁵⁵

As a matter of facts, Yugoslavia historically dependent from external loans and capitals and was more trade-oriented than other developing countries, suffering the repercussions of the oil shocks in 1973 and in 1978-79, in particular in terms of general inflationary pressures. For example, as reported by Bruno Dallago, in 1979 the level of retail prices increased by 32,2%, while the cost of living by 29%.³⁵⁶ In the next table are

354 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, p. 14-15.

355 M. Vacić, *Why the Development of Yugoslavia Deviated from the Socialist Self-management Market Economy*, p. 15.

356 B. Dallago, *L'inflazione nei paesi socialisti: un tentativo di comparazione fra i*

shown the increases of prices from 1970 to 1979. We can see that the highest increases of prices happen in the two-year periods 1973-1974 and 1978-1979, that is when world crisis erupted. Even if in Yugoslavia inflationary pressures appeared in early 1960s and were related to several causes – some of them already analyzed in previous chapters: incomes increases over labor productivity; devaluation of dinar; increases of consumption etc. – its ties with world market and international division of labor concurred to determine the increase of prices during the two oil shock:

casi jugoslavo e ungherese, in *L'Autogestione jugoslava*, p. 238, n. 14.

Table 2.9. Prices level in Yugoslavia from 1971 to 1979

	1971	1972	1973	1974	1975	1976	1977	1978	1979
Prices production									
Agriculture	26	24	25	14	13	14.4	12.1	10	25.6
Industry	15	11	13	29	22	6.1	9.5	8.3	13.2
Raw Materials	18	10	13	38	23	6.1	8.8	7.9	16.1
Capital goods	12	6	9	12	22	11.2	9.5	5.3	6.1
Consumer goods	12	13	13	22	21	5.3	10.7	9.7	11.1
Retail prices									
Total	16	15	18	27	26	9.4	13.3	13.4	21.9
Agricultural products	20	17	23	16	23	13.5	17.3	15.3	20.4
Industrial products	14	18	17	30	26	8	13	13.3	22.9
Services	14	11	17	20	26	13	13.4	13.9	21.7
Consumer prices	16	17	20	21	24	11.6	15	14.3	20.4
Wages	23	17	16	28	24	16	19	21	20.5
Labor productivity*	1	2	2	5	0	-1
Labor productivity**	5	3	3	5	1	0	6	5	4

*In socialized productive sector (without agriculture). ** In industry. Source: OECD, Economic Surveys, in Dallago, *L'Autogestione Jugoslava*.

From the data showed in the table we can easily link the increase of prices with general world conditions. For example, raw material prices boosted from 13 (1973) to 28 in just one year: the cause, of course, was the increase of oil prices, which

had repercussions on overall prices level. Similarly, retail industrial products prices jumped from 17 to 30, while industrial production prices from 13 to 29. Wages, on the other hand, boosted from 16 (1973) to 28 (1974).

However, during 1970s Yugoslavia continued to experiment a remarkable economic growth, while in the following decade the country had to face a dramatic economic slowdown. The main cause was related to the high rate of investments during Seventies and to the international loans provided by institutions as FMI. A study by Branko Milanovic exposes the macroeconomic situation of Poland, Hungary and Yugoslavia in 1970s and 1980s³⁵⁷. Hence, in the following table is shown Yugoslav macroeconomic situation in 1970s and 1980s; the main element by data reported is the abrupt passage from economic growth to stagnation. The GDP passed from an annual average growth rate of +5,1 to an annual growth rate of + 0,9 in just *few months*, while real wages passed from +2,1 to – 2,2.

At the same time, as argued by Milanovic, the crisis began in 1980 but was postponed for a short-term borrowing which allowed country to cover a current account deficit equal to 6 percent of GDP. In the aftermath, as we can argue by table data, *per capita* consumption was stagnant, as GDP growth.

357 B. Milanovic, *Poverty in the Years of Crisis, 1978 to 1987: Poland, Hungary and Yugoslavia*, in *The World Bank Economic Review*, Vol. 5, No. 2, A Symposium Issue on the Analysis of Poverty and Adjustments, 1991, p. 189.

Table 2.10. Macroeconomic indicators in 1970s and 1980s

	1970-79	1980-87
<i>Per capita growth rates</i>		
GDP	5.1	0.9
Consumption	4.5	0.8
Real wages	2.1	-2.2
<i>Share of GDP</i>		
Current account	-1.7	0.2
Gross fixed investment	32.1	21.1

Source: *Statistical Yearbook of Yugoslavia*; for current account: *FMI international financial statistics*, in B. Milanovic, *Eastern Europe in the Years of Crisis, 1978 to 1987: Poland, Hungary, Yugoslavia*.

This macroeconomic overview of 1970s is useful to frame the international and domestic conditions in which concrete choices of economic policy were made. But, these choices are always related, also ideologically, to a given system, that in the case of our study is based on a socialist economic framework in which political authorities acted. Economy and politics are not unrelated entities: economic choices were made by political-oriented authorities, hence political economy is not a “neutral” entity that should be managed only by “neutral” technicians, neither in the capitalist systems nor in the socialist world. The trade-oriented feature of Yugoslavia, the frequent requests of international loans to foster, for example, high levels of public investments and fast growth were choices taken by political authorities in the given conditions of

international market and international political relations, such as domestic market and domestic political conditions.

Sometimes these conditions change, as happened with oil crisis, and the political authorities try to invert the recessive trends.

4.1. Authorities Responses to Sociopolitical Crisis and Economic Slowdown

To stop the socioeconomic tendencies arose with mid-1960s reform the Yugoslav leadership, and in particular the duo Tito-Kardelj, sought to reverse the economic policy introduced with the reform of 1965. The changes introduced in the early 1970s and then with 1974 constitution and 1976 *Law on Associated Labor* went in the opposite direction of the previous economic policy.

As Flakierski put it «the reform of 1965 had had increased the power of managerial strata by undermining workers' control in the enterprises, but they also threatened to deprive the party bureaucracy of its political control and to remove it from the decision-making process [...] The underlying philosophy of the changes in the 1970s was that self-managed enterprises based on social property would promote cooperation rather than competition among economic units. Hence, the free play of spontaneous market forces would be

restraint (but not abolished)».³⁵⁸

In few years, and in the light of a general discontinuity with the previous policies, Yugoslavia shifted away from the socialist market economy to an administrative/contractual economy. In other words, market mechanisms were weakened in favor of administrative measures: in one phrase, from market-socialism to contractual economy.

New macroeconomic tools were developed: contractual planning, self-managed agreements and social compacts.³⁵⁹ The aim was a gradual restriction of the market in favor of the system of the social compacts.

The role of agreements between self-managed enterprises was to serve as a mechanism to replace both: a. the reliance on market mechanisms for prices and quantities; b. the direct intervention of planning bodies.³⁶⁰ As Flakierski put it, the “contracts were seen as a substitute for a capital market that would solve the problem of capital mobility”³⁶¹; at the same time, it was believed that the direct contractual exchange between surplus and deficit enterprises would improve the mobility of capitals without recurring to bank system.

In general, lying under the reform there was a different approach to economic exchanges: although competition

³⁵⁸ H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 11.

³⁵⁹ H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 11.

³⁶⁰ H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 12.

³⁶¹ H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 12.

between enterprises was still considered desirable, actually competition was conceived as something that should happen *before* factories were built and mainly for achieving the funds required, and not *after* –as in capitalist countries– in the free market.³⁶²

At the same time, a more egalitarian policy in income distribution prevailed: after the increase of social differences in income distribution, new principals were established by federal authorities. In 1972 controls were imposed over distribution of income per worker between personal income and internal funds. As reported by Flakierski “these formulas [of the new policy in incomes distribution] imposed a new and common logic: those enterprises that had higher than average net incomes per worker had to allocate a higher percentage to internal funds (savings, consumption funds, reserves) and a lower percentage to personal incomes, whereas enterprises with net incomes per worker below the average had to do the opposite”.³⁶³ Actually, differences in personal incomes declined after the years of post-1965 reform and differentials between groups and strata decreased.

So, Yugoslav leadership was sufficiently aware of the socioeconomic tendencies ignited by 1965 reform, and of the potential danger that they embodied for the socialist system, in

362 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 12.

363 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 14.

particular in terms of restoring capitalism. The economic and political responses were quite fast, and as we have seen went in the opposite direction of those of the 1960s. But, at the same time, these responses did not strength the “authoritarian” side of the political system and did not provide a “soviet-style” (in particular Stalinist) repression: actually, they sought to improve democracy, more egalitarian conditions and, overall, the concept of self-governing society. The ambitious aim of Kardelj was addressed to the decentralization of the decision-making process empowering the social and political role of workers and citizens.

Enterprises' self-management system was, *as happened for every other previous reform*, the keystone of the 1970s reform as well. Next paragraph is focused on the reform of self-management system and on the role of the basic organization of the Oour in the global political system.

4.2 The Third and Last Shape of Self-management: Oour, Ro, Sour, and Their Function in the Self-governed Society

During 1970s self-management was deeply reshaped for the third and last time. This restyling of the main specimen of the *second* Yugoslavia was completed just few years after 1965 reform; as we have seen earlier in this Chapter, the mid-1960s

reform, opening economy to market mechanisms, provoked several socioeconomic tendencies which Yugoslav leadership sought to invert or openly repress (as done with nationalism).

The reforms of 1970s were the apex of a theoretical reflexion in which Yugoslav Marxism touched its highest point. Furthermore, next to the improvement of economic democracy with self-management, Yugoslav leadership, in particular with the constitution of 1974, sought to strengthen the policy of self-governing society at communal level, overcoming the separation between economic organization and political organization.

The following pages will take into account first the new self-management organization, then the reform of political system, trying to give an harmonic frame of the 1970s reforms.

The cell of the new system, the basic organization of associated labor (*Osnova organizacija udruženog rada*, from now: Oour), was introduced for the first time with the XXI constitutional amendment of June 1971, which foresaw that «workers that, in any division of work organization (enterprise, institution *et similia*), form a work unit in which the result of collective work can appear as value on the market or in any work organization, and that on these basis can be autonomous, have the right to organize that work unit as a basic organization of associated labor».³⁶⁴

³⁶⁴ Amendment quoted in P. Brera, *L'economia Jugoslava dall'euforia alla crisi*, in *L'enigma Jugoslavo. Le ragioni della crisi*, p. 195.

Three years after, in 1974, two laws extended the Oour at the whole Yugoslav economy (*Zakon o konstituisanju I upisu u sudiski registar organizacija udruženog rada* and *Zakon o sudovina udruženog rada*), foreseeing that «The basic organization of associated labor is the base of every form of associated labor and of the means of production and of the entire social system. Every relation of social reproduction is reflected in the Organization of associated labor».³⁶⁵

However, the final systematization of the new organization of self-management was established by the constitution of 1974 and with the Law on associated labor (*Zakon o udruženog rada*) of 1976. These fundamental law recognized to workers the right to form a Oour within these conditions:

- workers had be involved in a production process coherent and unified;
- the income produced had to be independently calculated and had to be legally obtained;
- workers had to take on the responsibilities and duties related to the functioning of the Oour.³⁶⁶

According to Kiro Gligorov, the requirement for such an organization to be appropriate were the dimensions: every worker had to participate directly to the management and to the decision taken within the enterprise; workers, at the same time, had to be aware of the conditions and of the problems of

³⁶⁵ P. Brera, *L'economia Jugoslava dall'euforia alla crisi*, p. 195.

³⁶⁶ P. Brera, *L'economia Jugoslava dall'euforia alla crisi*, p. 195.

the enterprise and also of the economic and technological conditions necessary for its existence.³⁶⁷ Lampe noted that with the law on associated labor larger enterprises had the permission to subdivide their councils according to function or location. In 1978 were created 19,000 smaller councils, which increased overall membership to 700,000 members.³⁶⁸

From the point of view of the general organization of the associate labor, the Oour was the basic production unit – or a single enterprise department. More Oour together formed a Ro, that is an enterprise – the Ro could also be a smaller enterprise that could not be divided in several Oour³⁶⁹. Finally, several Oour and Ro could form a Complex organization of associated labor (*Složena organizacija udruženog rada*, now: Sour), which was an “independent and autonomous” organization formed on voluntary basis by several Oour and Ro involved in the same sector or production process.³⁷⁰ The *figure 2.2* provides a pattern of the system³⁷¹:

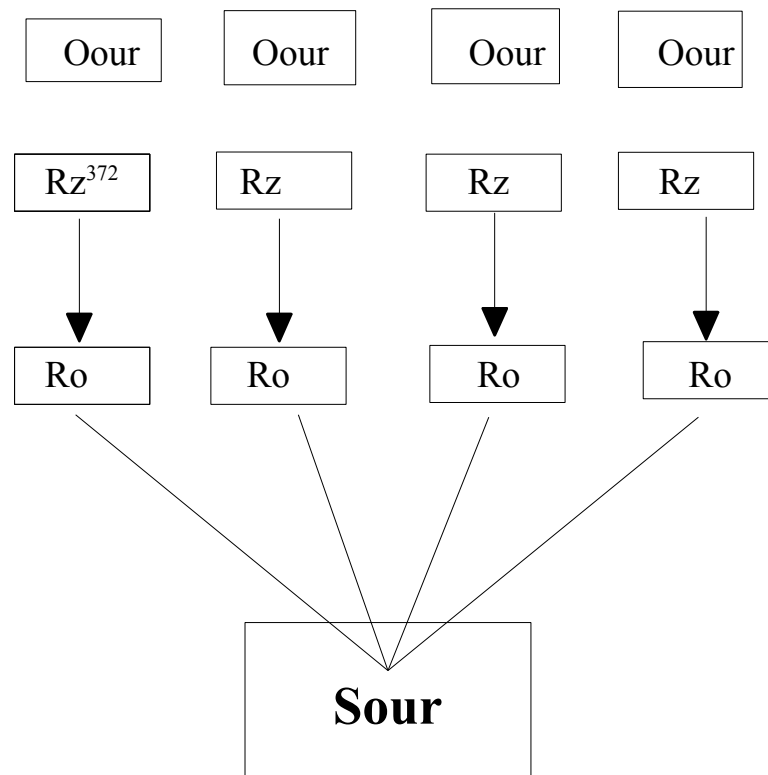
367 Cited in P. Brera, *L'economia Jugoslava dall'euforia alla crisi*, p. 194-195.

368 J. Lampe, *Yugoslavia as History*, p. 310.

369 P. Brera, *L'economia Jugoslava dall'euforia alla crisi*, p. 195-196, and F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, both in *L'autogestione jugoslava*, p. 102-103.

370 F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, p. 102-103.

371 Source: Enciklopedija samoupravljanja, Savremena administracija – Izdavački centar Komunist, Beograd, 1979, p. 550. See also: Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, p. 103.



Therefore, for every production unit, freely associated workers “manage the means of production in the global processes of social reproduction” (art. 13 of the Law on associated labor), in the light of managing incomes distribution and consumption of workers collectives, promoting and improving of the material basis of production processes, creating and renewing the resources of the Oour. Finally, to guarantee the general development of the entire society, that is

372 The Rz was a community of workers involved in common services. See F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, p. 103.

to guarantee the general needs related to education, science, culture, public Health and other social services (art. 51 and followings).³⁷³

Every Oour operates within market rules according to the principle of economic freedom: «Organizations of associated labor are free to manage economic activity (or other kind of activities) in the Yugoslav single market. They are equal in achieving income and managing the results of their work, in the general condition of market rule and by the address given by whole society to the social and economic development» (art. 20).³⁷⁴

Another interesting aspect of the “associated labor” was related to the possibility that the Oour, in the light of the entrepreneurial autonomy, could directly finance itself recurring to mass savings. The art. 29 of the 1974 constitution stated that the Oour could pay off citizens in the form of interests or other social benefits.³⁷⁵

In relation to the new structure of self-management, new organs were added to the old ones. First of all, the General assembly (*Zbor radnika*) of all workers of the Oour, in which were taken decisions about incomes distribution.³⁷⁶ The General assembly was also charged to elect for two years the

373 F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, p. 104.

374 F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, p. 104.

375 F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello Jugoslavo*, p. 104.

376 A. Antonini, M. Pacor, *Democrazia, pluralismo e partecipazione nel lavoro associato*, in *L'autogestione Jugoslava*, p. 112.

Worker council (*Radnički savjet*), which had the task to:

- set the statute of the Oour;
- make proposals related to self-management agreements;
- regulate the relations in the enterprise with binding acts³⁷⁷;

Workers council had the power to choose one or more Executive councils (*Izvršni odbori*), which had to apply the decisions taken by the Workers council.

One of the main changes that involved self-management was related to the apex of the enterprise, that is the director. The aim of the *third step* of self-management reform aimed at stopping the power of technocrat cadres, among who there were enterprises' directors.

The law on associated labor foresaw that the role of the director could be held by a collegial direction (*Kolektivno-operativno rukovodstvo*). Furthermore, directors weren't anymore just appointed by the State: they could be selected after a public competition (as before the 1976 law) or appointed by workers' collective.³⁷⁸

According to Antonini and Pacor, with associated labor directors loosed the discretionary power that they had in the previous system, when they were appointed by the State:

Con il lavoro associato, inoltre, il direttore perde il ruolo

³⁷⁷ These provisions were foresaw by the article 495 of the Law on Associated Labor. See A. Antonini, M. Pacor, *Democrazia, pluralismo e partecipazione nel lavoro associato*, p. 112.

³⁷⁸ A. Antonini, M. Pacor, *Democrazia, pluralismo e partecipazione nel lavoro associato*, in *L'autogestione Jugoslava*, p. 112.

di comando che aveva un tempo, quando veniva nominato dallo stato, così come il potere discrezionale, che di fatto continuava ad esercitare insieme con i suoi più diretti collaboratori nell'azienda, appare notevolmente ridotto, se posto a confronto con i margini di discrezionalità di cui godeva negli anni sessanta. Oggi gli resta soltanto il ruolo di conduzione, di organizzazione e coordinamento del processo di lavoro; è essenzialmente lui a proporre la politica gestionale, benché non solo egli debba attenersi alle decisioni del Consiglio operaio e dell'Assemblea dei lavoratori, di fronte ai quali è responsabile ma anche subisca ulteriori ridimensionamenti nelle sue funzioni laddove queste vengono distribuite fra più persone facenti parte della Direzione collegiale.³⁷⁹

Another self-management organ created to strengthen the workers control on enterprises was the Commission of workers control on self-management (*Samoupravne radničke kontrole*), which had the function of monitoring the compliance of workers' rights during the production process; informing on every aspect related to the discussions in the workplace; controlling the lawfulness of self-management acts.

With the Law of associated labor was reformed also the social planning: economic and social planning moved from the center to the single production units, the Oour.

³⁷⁹ A. Antonini, M. Pacor, *Democrazia, pluralismo e partecipazione nel lavoro associato*, in *L'autogestione Jugoslava*, p. 114-115.

The system was based on *self-management agreements* among the organizations of associated labor, and just after that the Oour made their plannings, the general social planning was carried out. Stane Dolanc highlighted, on one hand, the relation between basic and general planning, and on the other the relation between economic and political organization: «si parte dai piani delle organizzazioni di base del lavoro associato per arrivare al piano generale della società attraverso un sistema di convenzioni autogestionarie fra le diverse organizzazioni di lavoro associato e di contratti sociali fra le assemblee dei delegati, *in quanto istituzioni del potere politico*» [emphasis mine].³⁸⁰

According to the Law of planning phases and Yugoslav social plan (*Zakon o osnovama planiranje i drustvenom planu Jugoslavije*), the Oour:

- set up their own plan;
- set up the elements of the self-managed conventions (in the ambit of the plan) in relation of the organization of working process and self-managed community;
- elaborated the elements for the social contracts based on the plans of sociopolitical communities.

As stated earlier, the planning was not related just to the self-managed enterprises. The social plans of the commune (*Opština*), of the autonomous region (*Pokrajina*), of the

380 S. Dolanc, *L'essence du système d'autogestion socialiste*, in *Socialism in the World*, n. 11, 1978. Cited in P. Brera, *Pianificazione e lavoro associato*, in *L'autogestione jugoslava*, p. 202.

republic and eventually of the federation were realized on social plannings of the organization of associated labor, taking into account the interests of the sociopolitical communities and of the collective interests formed in that ambit.

In the background of the newly reformed system, the federal government continued to set the macroeconomic objectives as the regulation of money supply, aggregate demand, prices, wages, import and export; but, as noted by Flakierski, “the instruments were very few [...] The federation was stripped of most of its fiscal power after 1965. *The enterprises charge on enterprise business funds and federal taxes on private incomes were abolished, and the federal turnover tax was to be handed over the republics*” [emphasis mine].³⁸¹ The 1974 constitution and the 1976 law on associated labor reformed the relations between republics and federation: “under the new constitution, republics and autonomous provinces became *de facto* nearly sovereign states”.³⁸² Similarly, Bianchini noted that the communes became the center of the fiscal system: they collected the taxes of enterprises in order to reinvest the wealth produced locally in social services and public health. Then, the republics collected how much remained of taxation and, in turn, addressed some of the global amount to the Federation, which now managed mainly the Fund for Less Developed

381 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 13.

382 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 13.

Areas.³⁸³

In conclusion of this part, it can be argued that the system of the Associated Labor sought to stop the disparities arose with 1965 reform and, actually, to implement *the democracy at the enterprises level*. On the other hand, the claims of local/regional – often nationalistic – movements found an institutional recognition. Actually, the republics became almost sovereign nations and, as argued by Brubaker, even though the regime repressed nationalism, at the same time the status of territorial nation was institutionalized, increasing a political field with a strong tendency to nationalism.³⁸⁴ This will be one of the most important causes of the political instability of the 1980s, as I will analyze later on.

The Oour was the cell of Yugoslav economy, but its role was not related just to the economic field. In the purpose of the Yugoslav leadership, and especially of Edvard Kardelj's, the Oour had to be the cell of the entire social system, overcoming the divide between the political field and the economic production. Implementing the democracy at the economic level needed that the same process had to be set within the political field. The Oour, along with self-managed interests

383 S. Bianchini, *La questione jugoslava*, p. 128.

384 R. Brubaker, *I nazionalismi nell'Europa contemporanea*, p. 23.

communities (SIZ), was conceived as the keystone of the mass participation in the political direction and production. In this way the authorities tried to foster and implement a “spread power”, at least at communal level. As noted by Bianchini, more than the 15% of people was included in the institutional system. This trend was perceived also as a guarantee of stability and reproduction of consensus.³⁸⁵

The model that Kardelj sought to draw was established on:

- the refusal of any western model based on a multiparty system, seen as the easiest way to restore capitalism;
- the *pluralism of interests*: the ambitious aim of the Yugoslav thinker was established on the conviction that current socialism should respect the complexity of social interests and should be based on a “political democratic pluralism”. Bianchini maintained that Kardelj was aware that the economic, social and political articulation produced different interests, also in conflict one-another, that had to find a political solution.³⁸⁶

The political model draft in 1974 constitution was based on a “delegate system”, regardless of the electoral suffrage, which sought to foster a direct democracy rather than a western-oriented representative democracy based on a multiparty party system.

This new kind of direct-oriented democracy was

³⁸⁵ S. Bianchini, *La questione jugoslava*, p. 128–129.

³⁸⁶ S. Bianchini, *La questione jugoslava*, p. 143.

established on several territorial levels, each with a correspondent “sociopolitical self-governed community” (SIZ): local communities, then communes – *that is the fundamental community* –, then autonomous regions and finally the federation.³⁸⁷

The political framework functioned in this way: every sociopolitical/local community and every Oour elected every four years a large delegation which, in turn, elected the delegates to communal, republican and federal assemblies, everyone composed by three chambers³⁸⁸. The three chambers were:

- The sociopolitical chamber; chamber of local communities and chamber of associated labor at communal level;
- The sociopolitical chamber; chamber of communes and chamber of associated labor at republican level;
- The federal chamber and chamber of republics and provinces at federal level.

Every chamber reflected the level in which people could take part within the administration of the State (to have a frame of the entire system see *Appendix 5. Membership of Assemblies at Communal, Republican and Federal Level*, p. 111):

- the chamber of local communities and the chamber of the communes that dealt with the interests of local communities;

³⁸⁷ F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello jugoslavo*, in *L'autogestione jugoslava*, p. 106.

³⁸⁸ S. Bianchini, *La questione jugoslava*, p. 128.

- the chamber of associated labor, composed by representative of work organizations;
- the sociopolitical chamber, composed by members of the political and social organization (Socialist Alliance, unions, League of Communists, youth league, red cross etc.).³⁸⁹

According to article 135 of the constitution, in every community the assembly is the “social self-governed organ and the highest decision institution”.³⁹⁰ Moreover, the assembly is composed by delegations responsible toward workers of the Oour and toward the other sociopolitical communities – according to Galgano they did not have any binding mandate³⁹¹, while on the contrary according to Gabriele Crespi Reghizzi the system recurred excessively to binding mandate, binding delegates to the will of the sociopolitical communities.

The political participation, as noted by Galgano, was not linked to the generic citizenship but to the specific position of the individual in the productive process and in the society. Actually, it was guaranteed the representation of several labor and social organizations. The object of the system was to carry out the complete self-determination of the worker, which exceeded the ambit of the enterprise – even if the Oour was the

389 S. Bianchini, *La questione jugoslava*, p. 128–129.

390 F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello jugoslavo*, p. 106.

391 F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello jugoslavo*, p. 106, and G. Crespi Reghizzi, *La disciplina giuridica nella Lega dei Comunisti in Jugoslavia*, in *L'enigma jugoslavo. Le ragioni della crisi*, p. 47.

base of this framework – to participate in a broaden political dimension: the problems of the enterprise and of the political communities were tied together.

This long but effective definition by Michael Howard sum brilliantly up the features of the new system:

The idea was to empower ordinary workers and citizens by decentralizing decision-making. Their self-management interests would thus be directly expressed, rather than represented and distorted by political parties in a struggle for power or pre-empted by a single party. Even enterprises were disaggregated into basic organizations of associated labor (BOALs), which reorganized themselves into enterprises through a complex system of social contracts. These BOALSs – typically workplaces – were the basis for direct election of worker delegates to workers' councils, to the chamber of associated labor of the commune, and to self-managed interest communities (SMICs), responsible for social services (education, health, etc.). Delegates were also elected to two other chambers from local communities and from sociopolitical organizations (including trade unions, veterans association, the socialist alliance, the party, and the youth league). The delegations would elect from their members delegates to the assemblies on the republican and federal levels. The idea, modeled on the Paris Commune, was that these delegates would consult

with their constituencies prior to deliberations and report back. They would also reflect the diversity of the population with respect to gender and occupation. They were to be delegates, not representatives, and the system was to articulate functional interests, not merely territoriality.³⁹²

Therefore, this was just the theoretical model, which, however, beyond any reasonable doubt represented one of the greatest achievement of direct democracy ever, especially if we think that the Yugoslav leadership – for the first time in the socialist world – admitted that the society was characterized by a pluralism of interests, and tried to provide the political structures in which these interests could be composed.

But, there is another element even more important, that is a remarkable attempt to overcome the other really existing socialist experiences. To some extent, the case of Yugoslav 1974 constitution embodied actually the purpose to spread the decision process and the administration among several institutions close to the worker-citizen.

To some extent, this pathway was advanced in the sphere of the production, mainly with enterprises' self-management – even if with the continuities and discontinuities and the contrasting tendencies that we have analyzed during this work. With the 1974 constitution, however, *a similar effort reached*

³⁹² M. Howard, *Market Socialism and Political Pluralism: Theoretical Reflections on Yugoslavia*, p. 309.

also the political sphere, at least at communal level. The Commune became the linchpin of the system: «It is here that the various interests were to be coordinated, and that direct delegate democracy was to take the place of the one party monopoly and multiparty struggles among clashing interests. Here also was to be coordinated the public provision of services – education, health care, utilities, etc. Such coordination was to be the result of agreement between users and providers of services, eliminating the need and dominance by state bureaucracy». ³⁹³

Decentralization of decision-making, improvement of the role of the communes to foster real participation, recognition of the pluralism of interests and unity of administration and production – with the worker-citizen in the center of the system – were some of the features of this constitutional framework.

However, we should not stress too much this first – even though important – effort to overcome the single-party system *toward a progressive direction*. The Yugoslav leadership continued to keep the dominion in the political structures with several organs, as the Socialist Alliance and, of course, through the Party. The Socialist Alliance was a kind of political macro-structure which tied together several other sociopolitical structures as partizans, youth league, red cross, unions and

³⁹³ M. Howard, *Market Socialism and Political Pluralism: Theoretical Reflections on Yugoslavia*, p. 309.

overall the League of Communists which, by statute, had the leading role.³⁹⁴ The Alliance was born in 1953 in place of the Popular Front and had the function of mass mobilization, of strengthening the relation between people and institutions and to let also to non-communists to participate actively to self-management organs. According to 1974 constitution, Socialist Alliance was a “democratic and voluntary front of workers and citizens and of all socialist organized forces”.³⁹⁵

Now, the Socialist Alliance was a broad structure through which the Party *de facto* controlled the delegate system. According to Crespi Reghizzi the League of Communists, as a “free force” in the Social Alliance and, in general, in every sociopolitical organization, led the delegate system; in particular, in relation to the electoral system or, better, in relation to the formation of the candidates, the Social Alliance was charged of making the candidates lists. These lists were closed, that is the number of candidates corresponded to the number of people who had to be elected.³⁹⁶

So, the League of Communists, *party of cadres*, as defied by Bianchini³⁹⁷, even in a system far different (and more democratic) from that of the first steps of Yugoslav socialism, kept a partial control on the political life through the Socialist

394 S. Bianchini, *L'alleanza socialista nel sistema politico jugoslavo*, in *L'enigma jugoslavo. Le ragioni della crisi*, p. 56.

395 S. Bianchini, *L'alleanza socialista nel sistema politico jugoslavo*, p. 56.

396 G. Crespi Reghizzi, *La disciplina giuridica nella Lega dei Comunisti in Jugoslavia*, p. 47. This system was changed definitely in 1988, with the approval of several amendments which introduced open and secret elections, with “open” lists at every institutional level and in every part of the country.

397 S. Bianchini, *L'alleanza socialista nel sistema politico jugoslavo*, p. 64.

Alliance and other organizations. According to Howard «Although in the League of Communist is not highly influential in the commune, “in the rest of the system it plays a much more orthodox role, in that it seeks to have a direct input into policy and personnel questions at republic and federal level and has a range of entitlements that it avails itself of in the policy process”». ³⁹⁸ Next to two Figures (2.3 and 2.4) provide a scheme of the Federation assembly and of the assemblies of the republics and autonomous regions.³⁹⁹

398 M. Howard, *Market Socialism and Political Pluralism: Theoretical Reflections on Yugoslavia*, p. 309.

399 For each of the two Appendixes the source is: *Enciklopedija samoupravljanja, Savremena administracija – Izdavač centar Komunist*, Beograd, 1979, p. 621. See also F. Galgano, *Partecipazione nell'impresa e partecipazione nella società secondo il modello jugoslavo*, p. 105 (for the first Appendix) and 107 (for the second).

The decision-making process was divided into three chambers, sub-divided in relation to territorial levels. See: M. Howard, *Market Socialism and Political Pluralism: Theoretical Reflections on Yugoslavia*, p. 309. The author added that “most actions were initiated by Executive Committees, but delegations often initiated matters of concern to them”.

Figure 2.3. Assembly of the Federation

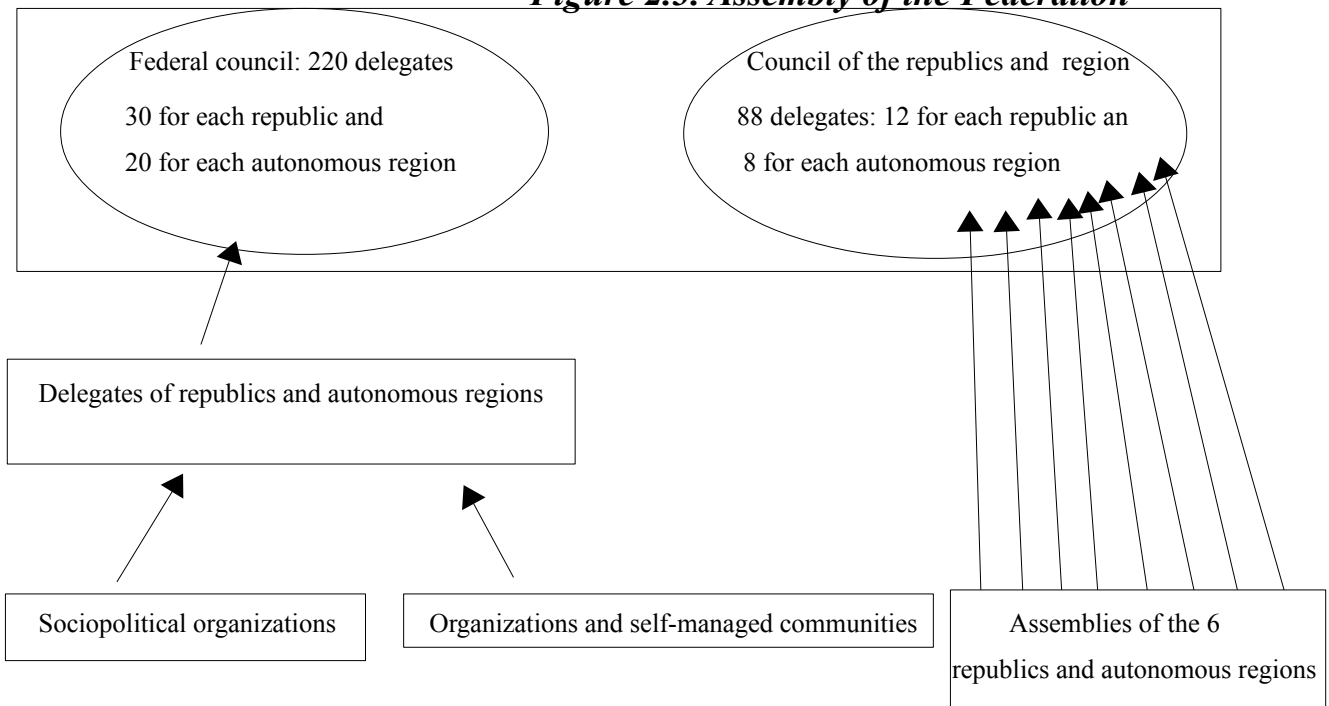
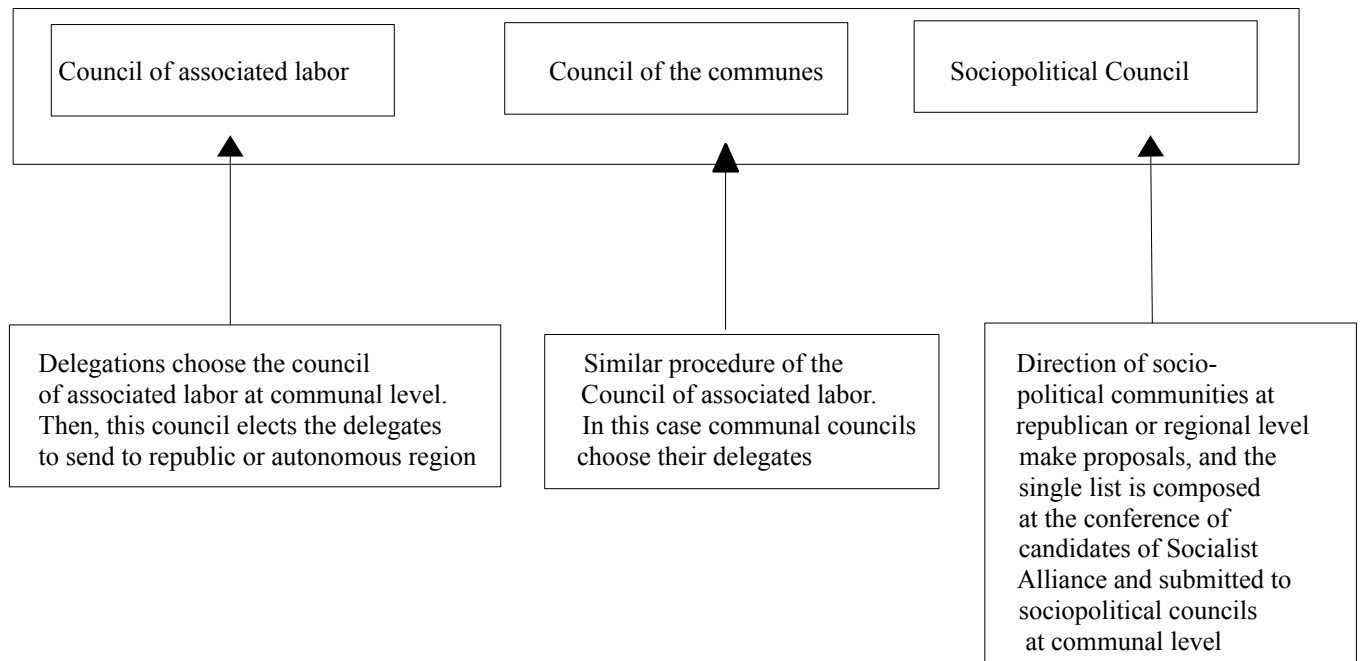
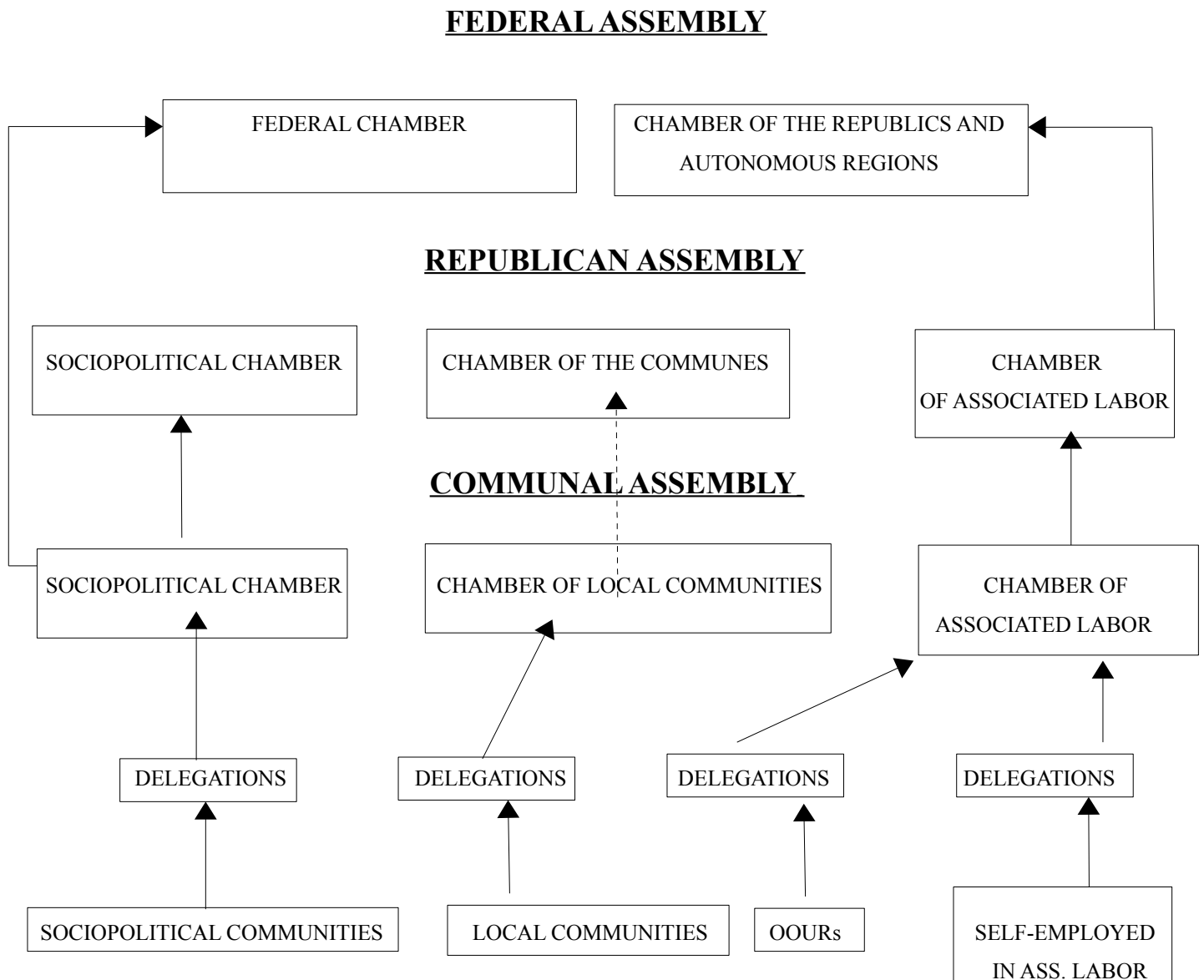


Figure 2.4. Assembly of republics and autonomous regions



The final Appendix (number 5) is a reproduction of the entire Yugoslav political system, from the “bottom” – sociopolitical organization, local communities, Oour's, self-employed in associated labor – to the top, with Communal, Republican and Federal assemblies.

Figure 2.5. Membership of Assemblies at Communal, Republican and Federal Level



5. Toward the Break-up: 1980s Crisis

During the 1980s the economic structural unbalance that historically affected the country, due to the world crisis in the aftermath of the oil shock of 1973 and especially of 1979 (with the sharp rising of interest rates) became a serious trouble with which the government had to cope with. Foreign trade deficit, indebtedness, growth of inflation, increase of unemployment and inequalities exploded after a decade, the 1970s, in which a 5.1% of GDP growth *per annum* counterbalanced these tendencies – even if the debt grew up to 20% *per annum* too⁴⁰⁰. The economic policy carried on in the name of the austerity and the economic structural crisis concurred to the fragmentation of the society and to the rising of nationalism and regional antagonisms.

The death of Kardelj in 1979 and especially of Tito in 1980 (4th of May) concurred to the destabilization of the country. Tito was *de facto* the linchpin of Yugoslavia. The Marshall was the man who victoriously led the war against Nazi-Fascism, whose opposition to Stalin turned-out to be a political success after the XX congress of PCUS the destalinization process triggered by Krusceev. He came up with the foreign policy of non-alignment and was one of the protagonists of the international relations of XX century. Tito was plaited with the second Yugoslavia history. According to Bianchini, Yugoslavs

400 J. Lampe, *Yugoslavia as History*, p. 315.

felt as they had lost the father.⁴⁰¹ On the other hand, the strong personalization of Yugoslav politics by Tito provoked serious problems to his successors. Tito, thanks to his strong personality was himself a source of legitimization for the Yugoslav leadership.

Milka Planinc was chosen to succeed Tito as chair of Federal Executive Council in May 1982. Planinc, according to Lampe, could not be called a “liberal” due to her credentials as a young Croat partizan and, especially, for her role as head of the Croat Central committee during the 1970s after the purge of Dabčević-Kučar.

Methodologically, the first frame of the 1980s crisis is macro-economically based, then the work will analyze the role of social forces and, overall, of the impact that the *political economy of austerity* had on the society.

So, the economic troubles that Yugoslavia dealt with during the 1980s were first rooted in the international conditions in the aftermath of the second oil shock. By 1978 and 1979 the oil shock provoked a new record of trade-deficit. As analyzed in the paragraph 4, during the 1970s Yugoslavia's economy gradually became more trade-oriented than any other socialist country. Consequently, the rising of oil prices and the world

401 S. Bianchini, *La questione jugoslava*, p. 134 – 135.

recession had a deep impact on the economy of the country. The indebtedness dramatically increased because of the necessity to cover the rising trade-deficit. The debt in 1972 was \$4 billion, while in 1982 it reached the amount of \$20 billion;⁴⁰² in 1979 the payments deficit reached 6% of GDP.

Hence, the problem related to the indebtedness boosted in early 1980s. The country began the negotiations with the International Monetary Fund (IMF) to have a three-year stand by credit. In the meanwhile, an *ad hoc* commission was appointed to face the rising economic problems as the foreign indebtedness, the balance of payments, the domestic inflation etc. Head of the Commission was the Slovene Sergej Kraigher, who “pushed hard for the 1965 reform” (cit., Lampe).⁴⁰³ Woodward, in relation to the appointment of Kraigher (known for his liberal views) noted effectively that «first, 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 consequences of the recession».⁴⁰⁴

Therefore, Yugoslav leadership decided to seek new financing and international assistance to reschedule the debt. By 1981 and 1982 long-term loans were conceded. About 600 private commercial banks offered a loan of \$600 and the refinancing of another \$1.4 billion. The IMF, World Bank and

402 J. Lampe, *Yugoslavia as History*, p. 315.

403 J. Lampe, *Yugoslavia as History*, p. 321.

404 S. Woodward, *Orthodoxy and Solidarity*, p. 536.

the Bank for International Settlement provided another \$1.4 billion in January 1983, then another \$3 package of refinanced debt and new credits for 1984.⁴⁰⁵

Inflation, on the other hand, continued to grow, even if the government sought to reduce it with monetary restriction policies. According to Shirley Gedeon «the rate of increase of prices of industrial output rose from an annual rate of 28-4% in the first quarter of 1979 to 53-8% at the end of 1983».⁴⁰⁶ The living cost passed from 30% of 1980 up to 41% in 1981, then up to 40% in 1983; the inflation started to grow uncontrolled by 1986, reaching the rate of 90% and of 167% in 1987. Of course, these rates of inflation led to a destabilization of the payments and of all the economic system: the money was no longer a stable unity of measure for the enterprises and for the economic activities.⁴⁰⁷

Another general economic problem that Yugoslav government had to dealt with was the lack of responsibility of enterprises and banks in the system introduced in the 1970s. Brera noted that every time that in Yugoslavia there was a credit restriction (1968 – 1971 and 1975), the organizations of associated labor credited each other triggering a *nelikvidnost* crisis, that is an increase of money velocity circulation even

405 See in particular J. Lampe, *Yugoslavia as History*, p. 319–320 and S. Woodward, *Orthodoxy and Solidarity*, p. 535–536.

406 S. T. Gedeon, *Monetary Disequilibrium and Bank Reform Proposals in Yugoslavia: Paternalism and the Economy*, in *Soviet Studies*, Vol. 39, No. 2, 1987, p. 282.

407 P. Brera, *L'economia jugoslava dall'euforia alla crisi*, p. 225.

after a credit restriction. The organizations, in this way, became autonomous money-creators.⁴⁰⁸ At the same time, unlike a capitalistic system, in which the entrepreneurs risk their own capitals, in the Yugoslav system of collective responsibility – given the social ownership of the means of production – actually no one risked private capitals or took on the responsibility for enterprises credit duties.

As regard to the government responses to the debt and trade-deficit crisis, the Kraigher commission was liberal-oriented and, as for 1965 reform, the liberal hour struck again. Woodward highlighted that «the Kraigher Commission on policies of structural adjustments recommended a process of liberalization and export oriented similar to the economic reforms of 1960s».⁴⁰⁹ Therefore, the system – modeled in the 1970s – was deeply reformed again, and the strengthening of the market mechanisms, along with an economic policy oriented toward a rigid austerity, won the day. Indeed, the contractual economy and the system of social compacts was replaced by restrengthened market rules.

The *austerity cure* began in 1982. The aim was to reduce the balance-of-payments deficit and to cover the indebtedness by cutting the public spending. In this way, as reported by Woodward, food subsidies were eliminated in 1981; prices for energy, food and transport were raised by one-third in 1983;

408 P. Brera, *L'economia jugoslava dall'euforia alla crisi*, p. 226.

409 S. Woodward, *Orthodoxy and Solidarity*, p. 539.

new investments for social services, infrastructure, and other governmental projects were banned.⁴¹⁰ Prices were frozen on and off several times, while the dinar was devalued and lost the 90% of its 1979 value by 1985. Restrictions were imposed on all imports that were not related to consumer goods, while the republics were permitted to issue rations coupons to consumers meet, coffee, cooking oil, gasoline, electricity etc.⁴¹¹

The economic “stabilization” program was carried out in two separate moments, under two different governments.

The first was established in July 1983. The Federal Assembly adopted the program of the Kraigher commission, which consisted in four major provisions⁴¹²:

- the decisions of production had to be lead according to world-market prices;
- enterprises were given more autonomy by permitting them to retain earnings (tax were reduce to 35% to 30%);
- financial sanctions were introduced to discipline inefficient producers;
- the use of private resources was introduced, for the first time, to reduce the slack in services and employment.

On this issues, that is the provisions introduced by the government after the Kraigher commission, Flakierski pointed also out that a unitary market was established to foster

410 S. Woodward, *Orthodoxy and Solidarity*, p. 536.

411 S. Woodward, *Orthodoxy and Solidarity*, p. 536.

412 S. Woodward, *Orthodoxy and Solidarity*, p. 538.

mobility of labor and capital; that the income of successful enterprises should not be redistributed in favor of less successful ones; that the practice of socializing the risk must be stopped; that the process of decentralization had gone too far, and now more power should be given to macroeconomic planning and general macroeconomic policy.⁴¹³

At the same time, it is really important to highlight that after 1983 the country was subjected to the “technical assistance” of IMF. Every spring, between March and May, a group of IMF delegates went to the country to negotiate the debt repayment and to impose a macroeconomic policy guideline.⁴¹⁴ The country *lost a relevant part of its economic sovereignty* and had to follow the FMI neoliberal discipline. The high interest rates, for example, exceeded of one point the rate of inflation: thorough this the FMI “tied Yugoslavia hand and foot”.⁴¹⁵ On the same point Woodward argued that

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

413 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 13. The author adds in the note n. 23 (p.92) that “some economists claim that the Constitution of 1974 is the main cause of all Yugoslavia's ills. The constitution strengthened the autonomy of the republics and provinces, while at the same time it weakened the federal government and destroyed the unity of the Yugoslav market”.

414 J. Krulic, *Storia della Jugoslavia*, p. 132.

415 The definition is in J. Lampe, *Yugoslavia as History*, p. 322.

showing losses) prevailed. The renewal of these policies and the decision to speed up their implementations 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 structural changes in foreign-trade policy to reduce the trade deficit were those proposed by the World Bank mission.⁴¹⁶

In the light of the Woodward's statements and of the general involvement of the IMF in the Yugoslav economic policy, it is possible to argue that the country lost partially its economic sovereignty or, at least, it was strongly directed by foreign financial institutions.

However, the “cure” of the austerity soon showed its effects. The real incomes, i. e., declined of one-quarter from 1983 to 1988 and of one-third from 1979. Woodward pointed out that *by the end of 1984 average incomes declined to 70% of the official minimum for a family of four*, while there was a *decline of living standards after 1980 for the 80-86% of the population*. At the same time, *the savings of 80% of the Yugoslav household were depleted and substantially cut*.⁴¹⁷

Unemployment in the social sector for the period 1981-1986 arose from 13.8% to 16.6%⁴¹⁸, reaching the peak of one

416 S. Woodward, *Orthodoxy and Solidarity*, p. 541.

417 S. Woodward, *Orthodoxy and Solidarity*, p. 542.

418 J. Lampe, *Yugoslavia as History*, p. 326. The author noted that the jobless citizens were under twenty-five years of age and over one-half were women.

million people.⁴¹⁹ The work stoppages, that is the strikes, more than doubled in the period between 1982 and 1987 and involved the 7% of workers in the social sector.⁴²⁰ Between 1980 and 1984 the living cost quadrupled, the living standards decreased of 6% *per annum*. The economic differentials between republics, as happened in the 1960s, increased dramatically: by 1984 in Kosovo the average wages were below the 25% of the national average, while in Slovenia above the 35%. Of course, the domestic demand fell and the consumption drastically reduced.⁴²¹

To face the rising interests on the debt contracted with the International Monetary Fund (among the others), the country, deliberately or not, sacrificed its economic and social system in four or five years.

The second package of reforms went also further. Meanwhile, in 1986 Branko Mikulić was chosen to succeed to Milka Planic as chair of the Federal Executive Council.

By 1985, the republics leaderships forced the Planic government to abandon the FMI guideline, but the Mikulić government went straight on the austerity cure. In the meantime, the inflation reached 150% by June 1987 and accelerated to 250% in 1988. In the same year the Mikulić government reopened negotiations with the FMI and its principal creditors. A US-led consortium called “Friends of

419 S. Woodward, *Orthodoxy and Solidarity*, p. 542.

420 J. Lampe, *Yugoslavia as History*, p. 327.

421 J. Krulic, *Storia della Jugoslavia*, p. 132.

Yugoslavia”, which assembled a debt relief in 1983-84, in 1988 assembled for one last time and pledged \$1,3 billions.

Yugoslavia, in the 1980s and especially in the second half of that decade entered in a recessive spiral provoked by the political economy of austerity that should have help out the country to exit the crisis: the increasing interest rates involved an automatic growth of the indebtedness. The cutting of public spending and the destination of the economic surplus on current account to cover the debt (boosted by high interest rates) with the IMF and others creditors ignited a recessive spiral, restricting dramatically the domestic demand. All economic indicators, and the living standard fell down in few years. In other words, the Yugoslav economy, even if in the light of several historical congenital unbalances, was completely wiped-out.

The Yugoslav government, under the monitoring of FMI, in April 1987 published a document called “Theses on the Further Improvement of the Economic System” (*Teze za dalju dogradnju privrednog sistema*). This document is very interesting because *de facto* contained, even if not explicitly, *a partial restoration of capitalist relations and private ownership*. Indeed, it went beyond a simple new strengthening of market rules. The main elements of the document are reported by Flakierski.⁴²² The background, as mentioned

422 H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 18–19–20.

above, was the lack of capital circulation in the country. Without any new public spending and with the public wealth used to cover the interests rates rather than making investments, the Yugoslav government was “obliged” to open to private capitals. Indeed, on this point some of the proposals of the mentioned document were:

- allow Yugoslav citizens to invest their savings in their own firms or create partnership firms;
- liberalize the restrictions on the transfer of profits abroad, as well as some widening of the property rights of foreign capitals owners (the aim was encouraging the inflow of capitals and joint ventures);
- raise the limits on landholdings (from 10 hectares to 30);
- reestablish the capital charge reflecting the scarcity of capital.

Moreover, in October 1988 the government proposed several changes in the economic planning. The planning was limited to a few strategic sectors as energy, railroads and communications. The system of social compacts and self-management agreements, according to the government proposals, had to be abolished at all levels of the economic system to foster the strengthening of macroeconomic regulation tools to influence economic decisions via market. Flakierski added that «the document also advocated granting managers more responsibility in the supervision of the

employees and more discretion to discipline workers for bad performance». ⁴²³

Therefore, as Lampe pointed out, the “real momentum for market reforms had surfaced briefly in 1965-66. It belatedly reemerged toward the end of 1988”. ⁴²⁴ In particular, under the pressures of the international financial community and in the light of a new agreement with the International Monetary Fund, the Mikulić government introduced three major provisions which called into question the socialist nature of the Yugoslav economy. First of all, restrictions on imports were almost totally abolished⁴²⁵; then, the restrictions on the ownership and on the profits linked to foreign investments were removed; at the same time, the 1988 law gave the possibility to private investors to acquire a stake in social enterprises. Eventually, a third law of February 1989 imposed to the social enterprises to declare bankruptcy if they lack of resources to cover debt obligations. In the field of labor legislation, the employment was not anymore guaranteed as in the past from firings and the now enterprises could fire workers due to their (insolvent) financial conditions. ⁴²⁶

Along with economic structural causes, in the summer 1978 the Agromerk scandal exploded. The Agromerk was one of the

⁴²³ H. Flakierski, *The Economic System and Income Distribution in Yugoslavia*, cit., p. 20.

⁴²⁴ J. Lampe, *Yugoslavia as History*, p. 347.

⁴²⁵ As noted by Lampe “Yugoslavia freed imports from the variety of quotas and special tariffs that still restricted access to 90 percent of import value at the start of 1988. By year's end, the figure fell to 45 percent, and to 13 percent by December 1989”. See p. 347.

⁴²⁶ J. Lampe, *Yugoslavia as History*, p. 347-348.

largest Yugoslav enterprises and was considered a successful firm until the abrupt bankruptcy occurred when the Sloven *Ljubljanska banka* refused to continue to cover its debt. The scandal involved the political establishment of Sarajevo – Hamdija Pozderac, vice-president of the Federation, had to resign – and several financial institutions.⁴²⁷ Krulic asserted that this scandal became a fact of “total history” – in the sense of the *Annales* school – in which all the contradictions of the country reached the surface altogether: the political and financial character of the scandal, the antagonism of interests between the Slovene bank (north of Yugoslavia) and the industry of the south (the Agromerk, in fact, was a Bosnian enterprise), the influence peddling and the situation of high inflation.⁴²⁸

The Agromerk scandal, along with the economic crisis, accelerated the crisis in the political sphere: in the aftermath of the scandal, with the rate of inflation up to 250 percent in 1988 and a series of crisis in the government and in the League of Communists (April-May and December 1988), on the 30th December 1988 Mikulić had to resign, “leaving the position of the federal government even weaker than when he entered office”.⁴²⁹

After Mikulić resigned, Ante Marković, a Croat enterprise's

427 See S. Bianchini, *La questione jugoslavia*, p. 148; J. Lampe, *Yugoslavia as History*, p. 324; J. Krulic, *Storia della Jugoslavia*, p. 136-137.

428 J. Krulic, *Storia della Jugoslavia*, p. 136-137.

429 J. Lampe, *Yugoslavia as History*, p. 324.

manager, was chosen as the new President (1989). He was the last Yugoslav President.

After Mikulić's choice to liberalize the prices in 1988, the rate of inflation rose up to 250% and, during 1989, inflation turned in hyperinflation, with rate up to 2,500%. Through this price policy, Mikulić aimed to create a stable rate of exchange and a centrally controlled supply of money, with the western creditors applauding for the "current account surpluses needed to service and also to reduce foreign debt".⁴³⁰ However, given the instability of the economic situation and the unsustainable rate of hyperinflation, Marković chose to use the hard currency of the National Bank of Yugoslavia to reconvert the dinar on January 1, 1990. Specifically, the dinar was index-linked to the German mark (1 dinar = 7 marks).

In the short-term, the overall economic situation seemed to improve. The rate of inflation dramatically decreased (from the 2,700% in 1989 to the 122% in 1990), the monetary reserves improved and the inflow of foreign exchange exceeded the outflow, while at the same time foreign investment augmented. Moreover, tourism increased and the trade balance improved.⁴³¹

At the same time, as mentioned above, the reforms, due to the emergency economic trend, introduced a partial restoration of a capitalist market while, because of the linkage of the dinar

⁴³⁰ J. Lampe, *Yugoslavia as History*, p. 348.

⁴³¹ See Lampe, *Yugoslavia as History*, p. 348; J. Krulic, *Storia della Jugoslavia*, p. 144.

to the mark, Yugoslavia actually submitted its economy to the international constrictions and to the world market, loosing the independence of the monetary policy.⁴³²

The contradictions of this political economy subsequently emerged in terms of social costs. Unemployment arose from 15% up to 20%, while real income decreased of 26%. The country, after more than 55 years, restarted to face poverty.

Through the political economy of the austerity Yugoslav society was completely destabilized.

5.1 The Cure Succeeded, the Patient Died. A Last Overview on the Self-management System in the Age of the Austerity and an Interpretation of the fall of the Communist Cultural and Political Hegemony and the Victory of Nationalist and Ethnic Issues

The cure succeeded, the patient died. In about ten years, the Yugoslav economy was completely wiped-out due to the international economic crisis of early 1980s and to the “austerity therapy” imposed to the country and supposed to solve its economic troubles. Of course, it did not let the country overcome the economic downturn trend but, actually,

⁴³² In the macroeconomic language, this system is called *currency board*. Specifically, it is an *asymmetrical* system, in which there is an hegemonic country and a peripheral one, which links its currency rate to the first guaranteeing the convertibility of its money to the established rate. A currency board is supposed to guarantee the reliability of the country who fixes its exchange rate to the money of the hegemonic one – Germany, in our case. The problem is that the peripheral country looses the independence of its monetary policy. See: P. De Grauwe, *Economics of the Monetary Union*, Oxford University Press, Oxford, 2009.

exacerbated the Yugoslav overall conditions bringing the country straight to the 1990s wars – along with several other causes analyzed later on.

During the 1980s a *constant economic emergency* marked the country. Because of this constant emergency the economic policies became the economic policies of the crisis, in turn oriented to the austerity doctrine and made up by provisions that, in plain conditions, would never have been introduced. Moreover, we should never forget that – in the words of Lampe – the “IMF tied Yugoslavia hand an feet”.

In these respects Woodward wrote in 1986 that “the government has nothing to offer in exchange for austerity, however, than promises of future results”. The future results remained only promises, while the country inexorably slipped to poverty and instability. The austerity triggered and amplified a recessive spiral that marked Yugoslavia until the break-up and even after: to some extent, the economic emergency and the austerity were the two faces that created the conditions for the relatively rapid dismantling of the Yugoslav socialist economy.

It is interesting to note that, at the time in which the austerity has been experimented, Yugoslavia was gradually loosing its economic independence. First, because of the “visits” of the IMF technicians, who imposed the economic agenda to the Yugoslav establishment after 1983.

Subsequently, in the early 1990s, due to the coupling of the dinar to the march, the country definitely lost one of the most important instruments of political economy. In other words, the possibilities for economic interventions were dramatically narrowed and generally addressed to the restriction of the role of the State in the economic policies. The Yugoslav welfare state and the social expenditures were dramatically reduced.

According to the analysis proposed here, the economic field represents the basis that allow to contextualize the subsequent and tragic break-up of the country. But, at the same time, the economic field must be linked to the loss of legitimization of the political establishment and, on the other hand, on the incapability of the *late* League of Communists to introduced another “hard discourse” that would legitimize the system.

In other words, this political economy rendered the conditions of the possible mature for those who aimed at seceding and split the Federation.

Moreover, while the central establishment was declining, *the regional elites were definitely taking control over the political and economic power*. This trend can be demonstrated through an element connected to the role of the Party within the Yugoslav society. It is possible indeed to argue that in the *second* Yugoslavia the Yugoslav Communist Party and then the League of Communists had the monopoly of the ideological and discursive production. Hence – following a thesis

developed by Marco Dogo – the endurance of the Federation could rely also on a socialist imaginary strengthened by a “strong vision of the future” and a certain degree of “constitutional engineering”:

Essa [the official political culture] ... rotto ogni legame con la tradizione pre-rivoluzionaria, si era potuta reggere per un quarto di secolo solo grazie a forti dosi di progettualità iniettate ad intermittenza nel dibattito ideologico e nell'ingegneria costituzionale⁴³³

Second Yugoslavia, to some extent, could rely on a sort of newly self-legitimizing attitude, which avoided to cope openly with the tradition. This element takes on a remarkable importance especially as regard to the ethnic issue: «The question of ethnic stratification – John Allcock wrote – was effectively bracketed, making it difficult for the Yugoslav social science to tackle openly and honestly this issue until the impending break-up of Yugoslavia made it unavoidable».⁴³⁴

In these respects, the favorable economic trend lasted almost fifty years seemed to guarantee to the regime, through the economic development, the legitimation it needed and, at

433 M. Dogo, *La crisi, le nazioni, la storia: avanti verso il passato?*, in *L'enigma jugoslavo. Le ragioni della crisi*, p. 309. Translation: “The official political culture, broken the ties with the pre-revolutionary tradition, could rely for 25 years on an ideological debate characterized by the projects of the regime and at the same time by its constitutional engineering.

434 J. Allcock, *Explaining Yugoslavia*, p. 186.

the same time, a large popular support – to some extent larger than in other socialist states. But, when the economic downturn became the reality of an entire decade *also* the discourse of the political establishment lost its self-legitimizing capability: the austerity, while dramatically undermined the trust in the political regime, at the same time let the ethnic, regional and nationalist forces growing and occupying the empty space left by the Communist leadership. On this issue Dogo wrote about the “revelations” of the crisis – along with the absence of the charismatic leader, Tito. According to the Italian author, the crisis unveiled incomplete models (self-management, mixture of socialism, democracy and competitiveness), a perennial transition, a modernization not completely achieved and a detachment from Europe.

At the same time, the “historical discourse” became a weapon in the hands of the regional elites. As Marco Dogo put it, there was a return to an “historical mythology” linked to an intermediate past, in which the myths' construction was not only tolerated but even fostered by the regional elites, with the effect of a “federalization” of the historiography and even of the Yugoslav history:

Svalutati ormai miti e simboli del passato prossimo e caduti in oblio altri più remoti come il panslavismo, riemergono quelli di un passato intermedio, tradizionali-nazionali, fattori coesivi di coscienze

sociali etnicamente circoscritte, non solo tollerati ma ormai pienamente legittimati nel contesto di distinti e autonomi processi di socializzazione politica su base repubblicana-regionale. Di qui la federalizzazione della storiografia e della stessa storia jugoslava, con annesse tendenze alla etnicizzazione e romantizzazione⁴³⁵

This issue played a particular role as a symptom of the pass of the cultural hegemony – especially noticeable in the discourse production – from the central elites to the regional elites and, at the same time, to an ethnic-oriented discourse. In turn, this element can be read as the symptom of the weakening of the central power in favor of the above mentioned regional elites.

At the same time, this question can be linked to the thesis of Allcock related to the role that inequalities played in the Yugoslav break-up. According to the interpretative pattern of the author “an important effect of growing regionalism was to create a pattern of growing of vertical segmentation which cut across strata, inhibiting solidarity and the coordination of action. The “second Yugoslavia” was torn apart not by the

435 M. Dogo, *La crisi, le nazioni, la storia: avanti verso il passato?*, p. 311. Translation: Myth and symbols of the recent past were devalued, just as more remote ones as the panslavism. While these were declining other were emerging, in particular those of the recent past. The traditional-national mythologies became cohesive factor of social consciousnesses *ethnically* oriented. These were not just tolerated but even legitimated by the several regional/republican-based political processes. Historiography and Yugoslav history were federalized themselves, and several tendencies concerning the ethnicization and “romantization” of the public discourse arose.

welling up of supposed antagonism from below, which its leaders were unable to contain, but in large measure by the rivalries which split its ruling stratum into irreconcilable fractions”⁴³⁶.

But why, during the nationalist uprising of 1971 the Communist leadership easily repressed the protest while almost twenty years later the ethnic and nationalist played a such important role in the dismantling of the country?

The answer must look first at the material power relations within Yugoslav society. The main difference between the early 1970s and the late 1980s mainly consists in the fact that while in the first case the central establishment had a strong legitimization – we should also consider Tito as a primary element in the legitimization of the regime –, in the second case, after ten years of economic crisis, the political leaders that sought to keep the unity of the Federation were far more weaker. At the same time, in the 1970s the unity of the Party was out of question, and in the material relations between the Federation and the Republics the first played the leading role. But, as analyzed in Chapter II, paragraph 3, even tough after the nationalist uprisings there was a return to centralism and a restoration of the “politic command” over technocrat cadres and market relations, the republican prerogatives increased, being actually recognized – as in particular the case of Croatia.

Twenty years after the central establishment, due to its inner

436 J. Allcock, *Explaining Yugoslavia*, p. 210.

divisions and its delegitimization, could not stop the movement toward regional and also ethnic-oriented politics. As Allcock put it in relation to the economic crisis and the role of the republican elites, «the deteriorating economic situation set in motion a spiral of collapsing economic security. From being the envy of other “real socialist” countries, the Yugoslavs suddenly found themselves facing galloping inflation, rising unemployment and a lack of institutional direction at the top. Insecurity is a dreadful solvent of order, and it served to exacerbate the political dimension of Yugoslavia's problems. In the search for explanations for their own difficulties, republican political elites tended to resort to blaming other republics, creating a culture of paranoia».⁴³⁷

So, the discursive and ideological production marked the fact that the relation of forces was now favorable to the regional elites, while the Party was definitely split.

What about the self-management? The issue is strictly connected to the role of the working class as well as of the League of Communists.

Branko Horvat provided a general theoretical pattern about the changes of the proletariat – and specifically of its class composition – in the end of the Twentieth century. According

⁴³⁷ J. Allcock, *Explaining Yugoslavia*, p. 97.

to the Croat economist

The historical working class (industrial proletariat) ceases to be the revolutionary subject. Nor does it imply a mechanical connection between the size of a group and its consciousness. But it does mean that, given the dynamics of social and technological change, *the existing revolutionary potential of the historical working class will diminish, not increase*. The whole idea of the revolutionary role of the industrial proletariat originated from the observations that industrial production was expanding relative to other sectors, since it was superior to traditional forms of production. In the most advanced countries, neither observation is empirically true any longer for: (1) modern nonindustrial (service) production is no less advanced than industrial (commodity) production and is expanding faster; (2) within industrial (commodity) production, the share of traditional manual labor is decreasing” [emphasis mine].⁴³⁸

To some extent, the theoretical approach of Horvat is useful to frame the objective and general conditions of the working class in the end of XX century. But there is also another element to take into consideration in relation to Yugoslav case. In the capitalist economies the working class, and especially the industrial proletariat, formed itself in hundred of years of

438 B. Horvat, *The political economy of socialism*, p. 403.

social and political struggles that formed the workers class consciousness, that is the consciousness of “the way in which human beings have organized the production and reproduction of their material lives” (van Apeldoorn, Beek, Ryner: 2002).

In Yugoslavia, before the Federal People's Republic, a large-scale industrial production did not almost exist and therefore an industrial working-class with its class-consciousness. The issue, at the same time, is related to the role of the Communist leadership because of its mission to (a) foster a large-scale industrial production; (b) guide the Yugoslav working class – in formation – to acquire the class consciousness it lacked. John Allcock on the question of the new class or better of the elites wrote that

The collapse of the old order and the triumph of the new, between 1941 and 1945, in “decapitating the former system, left a vacuum which was filled by an ad hoc congeries of individuals created by the experience of war, rather than by any organic process of socio-economic differentiation. I have suggested that it is more appropriate to conceptualise the upper stratum of post-war Yugoslav society as an elites rather than a class (“new” or otherwise) [...] The League of Communists, it should not be forgotten, *ruled as a party and not primarily as a class* [emphasis mine]⁴³⁹

439 J. Allcock, *Explaining Yugoslavia*, p. 201.

The interpretative pattern of Allcock concerning the role of the League of Communists as an elites rather assumes here a particular relevance, in particular in relation to self-management. Actually, self-management had been one of the *fil rouge* of the present work because this alternative kind of organization of the production was deeply linked to the main stages of Yugoslav socialism, being one of its most prominent and well known features. Born as an ideological response to the Cominform crisis and as a source to find a new legitimization of the system, the enterprises' self-management were also the field of the contradictions of Yugoslav socialism. Now, in several analysis related to self-management and its historical development, one of the element that clearly emerges is that this model was, to some extent, just partially realized. Either due to the politicization of the enterprises' management or due to the power of the technocrat cadres – until the mid-1970s laws –, the working-class, as analyzed in relation to strikes, found itself pressed by several groups, elites, strata. “The evidence suggests – Allcock wrote – that ideological and attitudinal patterns here underwent a complex development. Particularly during the 1970s, there were signs that Yugoslavia was coming to be increasingly radically divided at the level of political culture and that the apparatus of self-management was falling more and more into the hands of groups which did not represent the ordinary workers [...] A

distinct political culture can be seen to be emerging which was characteristic of manual workers in industry, who participated less and less in the formal mechanisms of self-management, experiencing steadily growing alienation from the system”.⁴⁴⁰

The thesis proposed here lies on the fact that due to the role of the bureaucratic/technocratic elites and party elites, the ordinary workers never reached the “ruling class” role usually and easily promoted by the regime. Moreover, if in other east socialist states as Poland and Czechoslovakia the working-class acted even against the regimes, in Yugoslavia the working class found itself trapped in the nationalist discourse and split among ethnic-based and regional interests. As a matter of facts, there had not been a dynamic of “class vs class”: in this case, the political and social struggle over the control of the production as well as State apparatus would have taken place between a new rising middle-class and the working-class. This latter ready to fight against the loss of its economic, social and political power.

But after the complete de-legitimization of the political establishment due to a ten-years period of crisis and to the lack of responses apart of the austerity political economy (that actually worsening the social conditions concurred to delegitimize the Federation), the conflict moved to regional and ethnic-oriented issues. While the “communist discourse” was vanishing for a new ethnic-oriented discourse, fostered by

⁴⁴⁰ J. Allcock, *Explaining Yugoslavia*, p. 206.

the regional elites, the working-class did not act as a nationwide united class but was fragmented in regional working-class with *supposed* contrasting regional interests. Or just remained a passive spectator of the break-up of the Federation because of the division between regional elites.

Nicole Janigro analyzed the characters of the Yugoslav working class in relation to the delegate system as introduced by the constitutional reform of 1974. According to the analysis of Janigro the economic and political decentralization, along with the republican fragmentation of the League of Communists and the amount of laws and organs that actually limited its participation led to the atomization and to the disorganization of the working class.⁴⁴¹ At the same time, the increasing income differentials between regions exasperated the divisions of the country. The Author pointed also out that many workers of the south started to move to the north of the country, that is toward the richest Yugoslav regions.

But even more interesting is the issue posed by Janigro in relation to the participation of the working-class in the Socialist Alliance and in the party:

La classe operaia, disorganizzata e frammentata, anche politicamente non è molto rappresentata. I 2/3 dei lavoratori non sono iscritti all'Alleanza socialista e tra i 2.111.731 di iscritti al Partito (il 9% della popolazione e il

⁴⁴¹ N. Janigro, *Elite politica e classe operaia: una coalizione elastica*, in *L'enigma jugoslavo. Le ragioni della crisi*, p. 284.

24,7% degli occupati) sono rappresentati di meno proprio gli operai che nella Lega sono solamente il 16,9%. E fra quanti non rinnovano la tessera in maggioranza sono lavoratori.⁴⁴²

So, to some extent the nationality – that is the autonomy of the nation, more and more ethnic-oriented – became one of the “rights” to fight for; on the other hand the identity, and even that of the working-class, far from being marked as a class-oriented identity and consciousness, was becoming more and more ethnic and national oriented.⁴⁴³

This trend connected to the weakening of a public discourse/identity – the self-managed socialism – in favor of another kind of discourse/identity – national and ethnic – became possible, as suggested above in the paragraph, because the economic policies of the crisis and of the austerity while gradually weakening the Federation at the same time undermined the ties that kept together the Yugoslav society. According again to Janigro, the economic crises “acted as a solvent”:

442 N. Janigro, *Elite politica e classe operai*, p. 285. Translation: The working class, disorganized and fragmented, even politically is underrepresented. The 2/3 of the workers did not participate to the Socialist Alliance and among the 2.111.731 party members (9% of the whole population and 24,7% of employed) the workers are the less represented: they are the 16,9% of the party members. Among those who did not renew the party card the majority is composed by workers.

443 “La rifeudalizzazione di ogni spazio geografico, sociale e spirituale sta permeando tutta la vita della Federazione, che funziona sempre più spesso come una confederazione” (Janigro, p. 285). Translation: the “feudalization” of every geographical, social and spiritual space is permeating the entire life of the Federation, which is functioning much more as a Confederation.

Il progresso sociale e le autonomie nazionali, in un sistema di autogestione mediato dal ruolo del partito, sono stati finora i tre punti di forza e di stabilità del potere dei comunisti jugoslavi. L'autogestione è stata l'idea guida, il collante di classe e nazionale di un territorio da sempre diviso dalla Storia. Tra spinte e contropunte la legittimità autoctona del sistema si è costituita intorno all'idea di un "interesse comune", rappresentato dall'autogestione. In grado di rispondere alla necessità di "unità nella diversità" e di autonomia. Lo sviluppo economico, un crescente benessere per tutta la popolazione, la speranza di un'"uguaglianza", se non presente almeno futura", hanno permesso alla complicata macchina del sistema "monismo+autogestione" di funzionare sperimentando. Ora la crisi economica ha agito come solvente [...] Il *primus inter pares*, il partito, difficilmente riesce a svolgere un ruolo di mediazione fra gli interessi delle "naziocrazie autogestite".⁴⁴⁴

444 N. Janigro, *Elite politica e classe operai*, p. 286. Translation: «The social progress and the national autonomies, included in the self-managed system mediated by the role of the party, are three major element of strength and stability related to the Communist power. Self-management was the leading idea, the national and class linchpin of a land that had always been divided by History. The legitimation of the system had been built on the idea of a "common interest", embodied by self-management, capable to keep the population unite in the differences and autonomous at the same time. The economic development, a rising welfare for the population and the hope for equity – even if as a future promise – allowed the complex system based on "monism+self-management" of functioning while experimenting. Now the economic crisis acted as a solvent [...] the *primus inter pares*, the Party, can take on a mediation role among the interests of self-managed republics».

In conclusion, the political dismantling of the country was possible because the socioeconomic sphere was already in structural crisis. The social disintegration mainly derived by the austerity therapy and by a ten-years period of emergency. In Yugoslavia the “shock economy therapy” started during the 1980s in the aftermath of the world crisis (specifically after the II oil shock). All in a sudden its public debt became not yet sustainable and the rate of interests dramatically increased. All economic and financial efforts were now addressed to the repayment of the debt and its boosting interests. The social effects of the austerity therapy soon appeared in the form of a general rapid economic recession and the recessive spiral triggered the decline of employment, living standards and real incomes, due also to inflation and hyperinflation. Enterprises' self-management and the system of social compacts could no longer resist to the international pressures, while gradually new market relations and the private property were introduced. Woodward maintained that “to explain the need to intensify austerity, the government shifted its argument. Because their difficulties were not independent of the international crisis, they argued, Yugoslavia had to assume responsibility for creating the crisis. Leaders had not implemented the wisest policies, but citizens had also lived for a long time beyond their means”. This statement is really interesting because as regard to neoliberal restructuring of a national economy

through the austerity therapy usually occur the same elements: international crisis; *moral responsibility for have been living beyond the means*; necessity of cutting the social and public spending, welfare state and social guarantees; increase of the social disparities.⁴⁴⁵ Yugoslavia was, as Chile in the 1970s, a laboratory to carry out neoliberal policies.

At the same time, due to the gradual dismantling of Yugoslav welfare state and, in general, to the social flake off, the nationalist and ethnic issues had the upper hand in fostering new identities – new discursive strategies gained the hegemony because the economic and political power was already moving to other elites.

The party was fragmented in regional elites and, as stated below in the text, the working-class was as fragmented as the rest of the other Yugoslav society. Rather than being the ruling class of the regime, and far from resisting to the dismantling of Yugoslav socialism, the working class was trapped in the ethnic and nationalist follies.

445 To some extent, and given the differences connected to the historical contexts, this discursive pattern has been used in the present Greece, Spain, Italy, Portugal etc. just to remain in Europe.

III CHAPTER

Origins and Spread of Neoliberalism. Its influence on the European Integration Process and on the Eastern and Southeastern European Post-socialist Transition. The Troubled Pass to European Union and to European Single Market of Croatia.

Index of the chapter III: 1. The End of History? The Historical Origins and Spread of Neoliberalism 2. The European Integration Process and Neoliberal Hegemony; 3. A Troubled pass to Europe. The Neoliberal Discipline of the Post-socialist Transition of Eastern and Southeastern European Countries; 3.1 Escaping from Balkans. The discursive Strategies of Croatian and Slovenian elites and their “new” European Identity; 3.3. Croatia's Transition from Self-managed Socialism to Neoliberal capitalism

1. The End of History? The Historical Origins and Spread of Neoliberal Hegemony

“Economic elites of the world, unite!”. The well-known statement of Karl Marx's communist Manifesto could be overturned and transposed to the counter-revolution that, from early 1970s, took place first in the most advanced capitalist countries (US and GB among the others) and then spread all over the world.

Neoliberalism is deeply related to the major changes occurred in the world economy in the last forty years, that is in western economies, as well as in former socialist and developing countries. To some extent, neoliberalism, conceived as a discursive strategy and as a set of economic practices, went on hand in hand with the political reaction of the western economic elites to overcome the Keynesian class-compromise in the post Second World War, and to foster a new global class power and a new accumulation process, especially

against the threat represented by the power of the organized labor after twenty years of workers' struggles.

In many respects, the analysis of neoliberalism it's nothing but the analysis of a “total” project, with its own political economy and its own culture and values. This project influenced the development of the European integration process such as the transition to capitalism of many former socialist countries.

After a brief analysis of the roots of neoliberal hegemony, this work will first survey the neoliberal hegemony as regard to European integration and then to the transition of Croatia in the European Union.

Prior to enter in the analysis of the historical roots of neoliberalism, a definition provided by David Harvey clarifies its main features, underlying its nature of “total project”:

Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the State is to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they

must be created, by state action if necessary⁴⁴⁶

At the same time, in the background of neoliberal rationality, State intervention in the economy must be restricted just to the embedding of new markets and to the guarantee of the conditions for their functioning – condition mainly achieved through the elimination of restriction and barrier. Any direct intervention of the State in the economy must be banned.⁴⁴⁷

Why and how neoliberalism prevailed? In the early 1970s a major economic crisis, ignited by the oil bloc of the OPEC countries, occurred, striking the so called Keynesian socioeconomic model. Developed right after the Second World War, the Keynesian model of capitalist governance rationality was marked by a certain degree of class compromise and an active role given to the State in the economic regulation.

Full employment, welfare state and class compromise between capital and labor were the main features of the social consensus built after the Second World War. While the western countries were economically growing, the forces of organized labor, mainly industrial based, struggled to achieve rights and wages' improvements.

«In the advanced capitalist countries – according to Harvey – redistributive politics (including some degree of political

446 D. Harvey, *A Brief History of Neoliberalism*, Oxford University Press, Oxford, New York, 2005, p. 2.

447 D. Harvey, *A Brief History*, p. 2.

integration of working-class trade union power and support for collective bargaining), controls over the free mobility of capital (some degree of financial repression through capital controls in particular), expanded public expenditures and welfare state-building, active state interventions in the economy, and some degree of planning of development went hand in hand with relatively high rates of growth. The business cycle was successfully controlled through the application of Keynesian fiscal and monetary policies. A social and moral economy (sometimes supported by a strong sense of national identity) was fostered through the activities of an interventionist state».⁴⁴⁸

This historical stage of capitalism, also defined as embedded liberalism, was in crisis in the early 1970s. After more than twenty years of steady growth, the capitalist accumulation began to decrease in the late 1960s. In the meantime, two major events occurred:

- The breakup of the Bretton Woods system (1971): the system of fixed exchange rates was substituted with a new system in which the exchange rates were free to flow. At the same time, the Nixon government decided to unfasten the dollar from the gold reserves;

- The Arab-Israeli war (1973) and the OPEC oil embargo, which ignited the I oil shock and the dramatic raise of prices.

Some of the main effects of the crisis were the rising of

⁴⁴⁸ D. Harvey, *A Brief History*, p. 11.

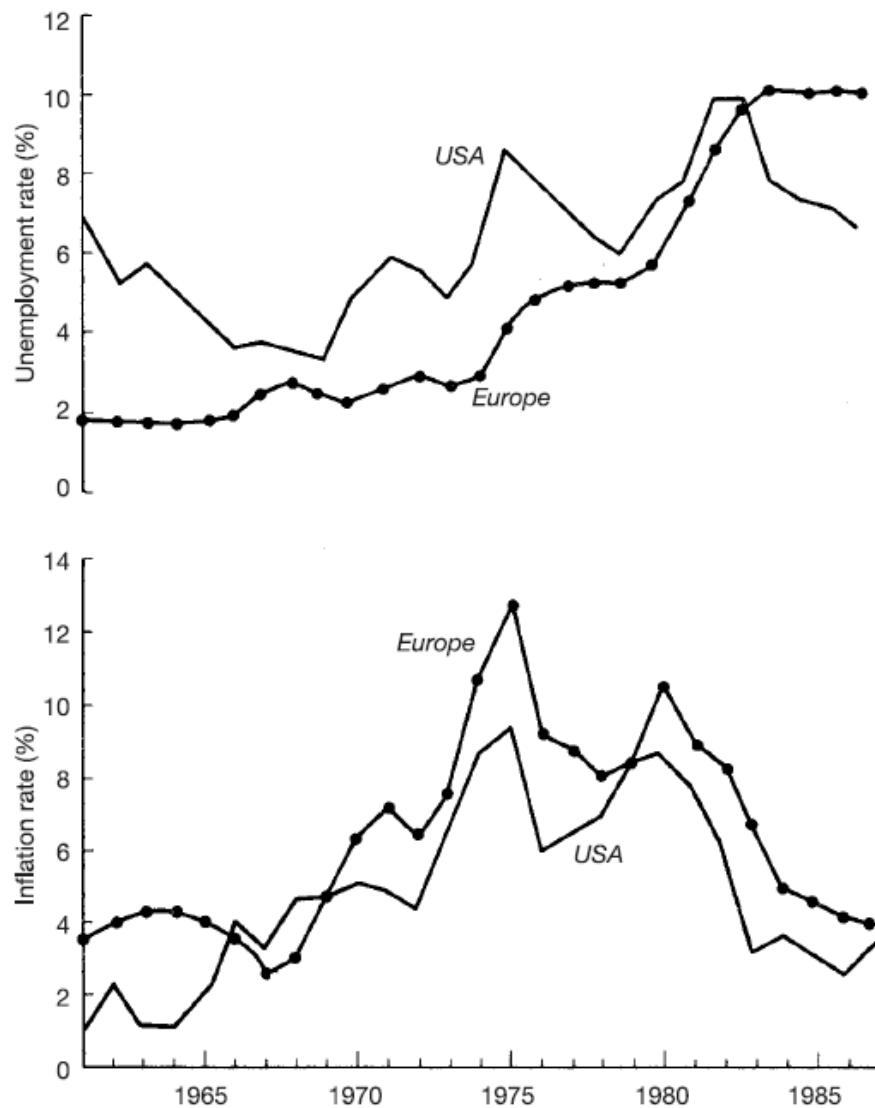
unemployment and inflation, while the state budgets were worsening. In the next figure (3.1) is shown the unemployment rate and the inflation rate from 1960 to 1987 in Europe and US. The inflation, after the two peaks reached across the oil shocks (1973/74 and 1978/79) gradually started to decrease. The inflation, indeed, was the “public enemy” of the new monetarist policies of the central banks, in particular the US one after Paul Volker became its chief director (1979). The new monetarist discipline of the Federal Reserve, indeed, was mainly addressed to the fight against inflation, “no matter what its consequences (particularly as concerned for unemployment)”.⁴⁴⁹

Unemployment, therefore, did not decrease. In Europe, for example, it grew steady throughout the period considered and beyond.

So, the following figure is related to unemployment and inflation in EU and USA (1960-87):

⁴⁴⁹ D. Harvey, *A Brief History*, p. 1.

Figure 3.1: Unemployment and Inflation in US and Europe, 1960-1987



Source: D. Harvey, *The condition of Postmodernity*. See also Harvey, *A Brief History*, p. 14,

As noted by the Italian sociologist Luciano Gallino, in US, *ex. gr.*, in the ten-years period between 1970 and 1980 20,5 million jobs were created (2 million per year), while in the

following ten-years period (1980-90) the improvement was 1,7 million jobs per year, for a total of 17,2 million. In the years between 1990 and 1999 the total was 6,9 million (1,4 per year), in spite of the improvement of the population due to the rising trend of the immigration. Indeed, in the period 1980-1995 the US population grew of 35,6 million, that is from 227,8 million to 263, 4 million.⁴⁵⁰ Moreover, the statistics used by the supporters of the flexibility in the world of work, usually did not mention the part-time employees or the temporary jobs. Gallino, in these respects, noted that between 1990 and 1995 the full time workers improved of 3%, while part-time ones of 15,3%.⁴⁵¹

The crisis as the ignition cause of the neoliberal restructuring. In the previous chapter, I have analyzed the austerity therapy imposed to Yugoslavia by IMF and by other international financial institutions. The economic crisis created the “conditions of the possible” to overcome the crisis with other politics; in other words, the crisis posed the basis for the neoliberal restructuring of the economy. After the 1970s crisis neoliberalism had the upper hand indeed: it provided a new discursive strategy and a new government rationality, while gradually undermining the former “embedded liberalism” and the former Keynesian-oriented capitalism. In the word of Kees van der Pijil, “when corporate liberal capitalist discipline and

450 L. Gallino, *Se tre milioni vi sembrano pochi. Sui modi per combattere la disoccupazione*, Einaudi, Torino, 1998, p. 23-24-25.

451 L. Gallino, *Se tre milioni vi sembrano pochi*, p. 26.

the supporting class structures disintegrated in the course of the 1970s, neoliberalism emerged as an alternative mode of imposing capitalist discipline on the bulwarks of social protection which had formed in three decades of corporate liberal hegemony”⁴⁵²

The role of the economic transnational elites. The theoretical conception of political economy that sustains this work adopts an holistic approach both to social sciences and social processes, trying to survey the links between economic, social, ideological and political fields.

On the contrary, a theoretical approach that conceives economics as detached from the wider social relations fosters the conception of economics itself as a set of *technical/neutral* prescriptions. Nevertheless, the hidden ideological nature of this approach emerges as soon as we look closer to these “neutral” measures, unveiling the bias of the interests they sustain.

The *discursive strategy of neutrality* produces two evident cases of *false consciousness*:

a. The neoliberal economic policies are conceived as elements right by themselves: other possible alternatives are rejected *a priori* while the social effects of those economic policies, always differently beard by groups/classes and even geographical areas, are systematically veiled by the kind of

452 K. v. d. Pijl, *From Gorbacev to Kosovo: Atlantic Rivalries and the Re-Incorporation of Eastern Europe*, in *Review of International Political Economy*, Vol. 8, No. 2, 2001, p. 275.

discourse according to which there will be benefits “for everyone” or “for the whole country”. In time of crisis the discursive strategy related to the austerity programs is the same: every social class should bear the costs of the crisis regardless to its material and working conditions and wealth.

b. The function of social groups, strata, elites or capitalist upper-class-fraction that have been fostering and foster this specific and historically determined type of political economy are never analyzed, with the effect that

b. 1: this type of economic – neoliberal – discipline abstracts from the human action, so that markets are conceived as a sort of natural and self-determining force;

b. 2: the human action of social groups is rarely analyzed, in particular how the groups seek to influence (and in fact influence) the government policies.

According to Gallino neoliberalism, therefore, operated as a political doctrine veiled as an economic theory: this doctrine was the “technical tool” of the political counteroffensive direct to wipe out the social achievement reached by working class in the thirty years after the Second World War:

Il neoliberalismo ha operato sin dalle origini come una dottrina politica rivestita con i panni di una teoria economica. È stato, in altre parole, lo strumento tecnico della controffensiva politica diretta a cancellare per quanto possibile le conquiste sociali delle classi

lavoratrici ottenute nel trentennio seguito alla Seconda guerra mondiale. In forza del successo di tale controffensiva guidata dalla dottrina neoliberale, i diritti del lavoro, le condizioni in cui si svolge, i servizi pubblici, i sistemi di protezione sociale le pensioni hanno compiuto nello spazio di una generazione un grande balzo all'indietro⁴⁵³

Several authors sought to analyzed the emergence of a transnational capitalist class and also its influence in the European integration process.⁴⁵⁴ Gallino identified four categories rooted in the transnational elites⁴⁵⁵:

- a. the individuals who hold at least one million dollars in financial assets (about 10 million). The global wealth of these individuals is 40,7 trillion dollars;
- b. members of the so called “family capitalism”, owner for

453 L. Gallino, *Finanzcapitalismo*, p. 25-26. Translation: «From the beginning neoliberalism acted as a political doctrine veiled as an economic theory. In other words, it was the technical tool of the political counteroffensive direct to wipe out the social achievements that the working classes reached in the thirty years after the Second World War. Due to the success of the neoliberal doctrine, the labor's rights, the conditions in which the working process takes place, the public services, the systems of social protection, the pensions – all these elements withdrew in the period of time of just a generation».

454 See, among the others: L. Gallino, *Con i soldi degli altri. Il capitalismo per procura contro l'economia*, Einaudi, Torino, 2010, in particular chapters V and VI; K. Van der Pijl, *Transnational Classes and International Relations*, Routledge, London, 1998 (freely readable at this link: <http://libcom.org/files/van%20der%20pijl-transnational%20classes%20and%20IR.pdf>); A. W. Cafruny, M. Ryner (editors), *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe*, Rowman & Littlefield Publishers, Oxford, 2003; R. Cox, *Pruction, Power, And World Order: Social Forces in the Making of History*, Columbia University Press, New York, 1987; A. Bieler, A. D. Morton (editors), *Social Forces in the Making of the New Europe. The restructuring of European Social Relations in the Global Political Economy*, Palgrave, New York, 2003.

455 L. Gallino, *Con i soldi degli altri*, see chapter V (p. 122-140).

generations of big private enterprises;

c. managers of big corporations (the Chief Executive Officers – CEOs);

d. counselors and managers of institutional investors (such as banks and holding companies); these investors hold the half of the total world capital (53 trillion dollars).

In this transnational capitalist upper class-fraction, as noted by Gallino, politicians and intellectuals can be also included, as well as high officials of the public administration, large law firms, think tanks, newspaper directors, professional lobbyists etc. Moreover, many CEOs and presidents of big corporations or institutional investors held also institutional positions in the governments. There is a continuous mixture between private and public, while an army made up by foundations, think tanks, clubs, lobby, societies, institutes etc. provides opportunities to meet and share information. In the EU, for example, the former French prime minister Sarkozy had close relations with captains of industry and finance; in GB Tony Blair (formally center-left wing) appointed in 1997 as Ministry of Commerce and Competition Lord Simon Highbury, former president of the British Petroleum; the Italian case embodied by Silvio Berlusconi does not deserve any further comment; the European Commissioner for Competition and former Italian prime minister Mario Monti was an advisor for the company Goldman Sachs.⁴⁵⁶ Mario Draghi, current president

⁴⁵⁶Apart of the information about Mario Monti, for the others see: Gallino, *Con i*

of the European Central Bank, has been from 2002 to 2005 the vice-president of the biggest investment bank for Europe, that is Goldman Sachs again⁴⁵⁷. One of the main examples of this trend is still embodied by the Bilderberg group: created in 1952, it gathers 110-120 high selected managers, politicians, intellectuals to “foster consensual policies for the western transnational system”; along with the Bilderberg group there is the Trilateral Commission, created in 1973 on the initiative of David Rockefeller: it is a kind of collateral institution functional to unite the leaders of the biggest capitalist countries of northern-Europe, north America and Japan.⁴⁵⁸

As regard to the historical formation of this *International of capitalist*, across the end of 1960s and early 1970s western economies reached the highest grade of the struggle between capital and labor. Between 1960s and 1980s the enterprises of the biggest western economies registered a remarkable decrease of profits due to an improvement of real wages and a reduction of working hours (from 1900 to 1600).⁴⁵⁹

David Harvey analyzed this issue. According to his analysis, the ruling elites were double threatened, both politically and economically, by the struggles of the organized labor, which was reaching more and more power:

There was, in this, a clear political threat to economic

soldi degli altri, p. 132-134-134.

457 L. Gallino, *Finanzcapitalismo*, p. 76.

458 Words of Gallino, *Con i soldi degli altri*, p. 138.

459 L. Gallino, *Finanzcapitalismo*, p. 78.

elites and ruling classes everywhere, both in the advanced capitalist countries (such as Italy, France, Spain, and Portugal) and in many developing countries (such as Chile, Mexico, and Argentina [...]) the economic threat to the position of ruling elites and classes was now becoming palpable. One condition of the post-war settlement in almost all countries was that the economic power of the upper classes be restrained and that labor be accorded a much larger share of the economic pie⁴⁶⁰

The neoliberal counter-revolution was, as any other strong economic and political program, fostered by social forces that aimed at protecting and improving their interests, in particular after the downsizing of the wealth of the 1% of the US population in the early 1970s. The next figure (2) shows the share of the assets (stocks, property, revenues) held by the 1% of the US population from 1922 to 1998: as clearly emerges from next figure, during 1970s the assets of the “1%” collapsed and restarted to grow just in the early 1980s:

460 D. Harvey, *A Brief History*, p. 15.

Figure 3.2. Share of assets held by the 1% of the US population



Source: Duménil and Lévy, *Capital Resurgent*. See also: Harvey, *A Brief History*, p. 16.

On the other hand, the real workers' wages gradually decreased: from 1989 to 1995 the real value of male workers' wages decreased by 6%. In 1975, the ratio between the income of an enterprise manager and that of workers/employees was 41:1. In 1994 it reached the ratio of 187:1.⁴⁶¹

With respect to this issue, neoliberalism reflected and supported, as a “total discursive device”, a determined class strategy, that of the ruling elites, to curb the rising power of world labor-related organizations (left parties, trade unions), bending their resistance. Again on the issue of CEOs incomes, as noted by Harvey the “0.1 per cent of income earners in the US increased their share of the national income from 2 per cent

⁴⁶¹ L. Gallino, *Se tre milioni vi sembran pochi*, p. 27-28.

in 1978 to over 6 per cent by 1999, while the ratio of the median compensation on workers to the salaries of CEOs increased from just over 30 to 1 in 1970 to nearly 500 to 1 by 2000”⁴⁶²

And further:

Neoliberalization has not been very effective in revitalizing global capital accumulation, but it has succeeded remarkably well in restoring, or in some instances (as in Russia and China) creating, the power of an economic elite⁴⁶³

Neoliberalism as a “flexible strategy”. Neoliberalism, differently from the “embedded liberalism”, has always had a fruitful interaction *between the global and the local* in supporting the economic restructuring of state economies. To some extent, neoliberalism has always been an effective discursive strategy that provided an economic organic framework to a global political strategy. On the other hand, the political strategies functional to apply that kind of economic restructuring differed from case to case, showing a certain degree of adaptation to the geopolitical context.

Chile, Iraq, Yugoslavia or European Union: to some extent, these countries adopted similar economic provisions but in the

⁴⁶² D. Harvey, *A Brief History*, p. 15.

⁴⁶³ D. Harvey, *A Brief History*, p. 19.

light of (sometimes very) different paths. Usually, the “shock economic therapy” and a permanent state of emergency are the preconditions for the application of the neoliberal political economy. Subsequently, the well-known prescriptions are adopted by (usually hand-tied) governments: privatizations of natural and economic resources, deregulation of markets, liberalizations, privatizations.

But, the tactical and political strategies that fostered the global neoliberal restructuring of the economy were and are mainly based on the US-power and on the so called *Empire*. According to Robert Cox, the substance of the Empire, differently from the “bureaucratic-administrative imperialism” of the XIX century, is the aptitude of the global economic and financial actors (both private, as the multinational corporations, and “public”, as the FMI or the World Bank) to penetrate across the borders of “formally sovereign states”:

The new “Empire” penetrates across borders of formally sovereign states to control their actions from within through compliant elites in both public and private spheres. It penetrates first into the principal allies of the USA but also into many other countries where US interests wield influence. Transnational corporations influence domestic policy in countries where they are located; and economic ties influence local business elites. Military cooperation among allies facilitates integration

of military forces under the leadership of the core of “Empire” [...] *Economic systems of the component territories of “Empire” are restructured into one vast market for capital, goods and services.* In the imagined future of “Empire” the “hard power” of military dominance and economic coercion is both maintained and transcended by the “soft power” of attraction and emulation [emphasis mine]⁴⁶⁴

In these respects, in his brief history of neoliberalism, Harvey provided several examples of the US military and economic dominion. In Chile, *ex. gr.*, occurred the first example of “neoliberal state formation”.⁴⁶⁵ In Chile the neoliberal restructuring of the state became possible after the coup of Pinochet (11th September 1973) that, with the military support of the US and the domestic support of the Chilean economic elites, overthrew the democratic socialist government of Salvador Allende. The Chilean economic elites were threatened by the socialist measures of Allende government, and after the coup a rigid neoliberal discipline was introduced: after having dismantled left organizations (social movements, the socialist party, trade unions etc.), the regime of Pinochet privatized the public assets, deregulated labor market, opened up natural resources to private and

464 R. Cox, *Beyond Empire and Terror: Critical Reflections on The Political Economy of World Order*, in *New Political Economy*, Vol. 9, No. 3, Sept. 2004, p. 10-11.

465 Definition of Harvey, *A Brief History*, p. 7.

unregulated exploitation; export-led growth was favored over imports substitution.⁴⁶⁶

It's interesting to note that the economists that worked hand in hand with the Pinochet regime were the ones of the so called Chicago school (or “Chicago boys”), that is the temple of neoliberal orthodoxy.⁴⁶⁷

A similar destiny was reserved to Iraq. After the “other” September 11th(2001) the US invaded Afghanistan (2001) and Iraq (2003). In the latter case, the war proceeded hand in hand with the neoliberal restructuring of the domestic economy: the first provisions of the Coalition Provisional Authority, headed by Paul Bremer, were “the full privatization of public enterprise, full ownership rights by foreign firms of Iraqi business, full repatriation of foreign profits ... the opening of Iraqi's bank to foreign control, national treatment for foreign companies and ... the elimination of nearly all trade barriers”. These provisions were to be applied to economic sectors, from media to public services to manufacturing to transportation and finance.⁴⁶⁸

In the Chapter II, paragraph 5, this work has analyzed the Yugoslav crisis during the 1980s. In that case there was not a foreign military invasion: the basis for the breakup of the state,

466 Definition of Harvey, *A Brief History*, p. 8.

467 The “Chicago boys” had a prominent role in the neoliberal restructuring of the Chilean economy: several Chilean economists were trained in the university of Chicago and then had an active role in the Pinochet regime. They first negotiated loans with the IMF and then worked with the IMF itself in the restructuring of the economy according to the neoliberal theories. See Harvey, *A Brief History*, p. 8.

468 Harvey, *A Brief History*, p. 8.

through the complete delegitimization of the government, were posed by the world crisis of the late 1970s and amplified by the role of the international financial institutions as FMI and World Bank. The shock therapy and the austerity, along with the emergence of ethnic and regional politics dramatically exacerbated the situation. The 1990s wars were to come, aptly backed by US and Nato, such as the pass from self-managed socialism to capitalism (and so to privatizations, deregulation, liberalization).

These three examples of “shock therapy” differed one another, but there was a *common set* of economic-neoliberal practices. However, in other cases the US imperial power had a little role in fostering this kind of economic restructuring: the government of Margaret Thatcher (1978) in GB is one of the major examples, but also the neoliberal hegemony in the European integration process is a fundamental issue of the global widespread of neoliberalism. Indeed, its effectiveness mainly lays in its great adaptive attitude with respect of the different historical, geographic, social, political and economic contexts. Whether in the capitalist “center” or in the “periphery” of the world, neoliberalism provided, according to the active role of the global-transnational and local economic elites, a useful total discursive strategy and, at the same time, an economic general *vade-mecum*.

«The uneven geographical development of neoliberalism –

Harvey wrote – on world stage has evidently been a very complex process entailing multiple determinations and not a little chaos and confusion». ⁴⁶⁹ According to the *Empire* theoretical framework, we should conclude with the words of Robert Cox that

Empire constitutes a movement towards convergence in political, economic and social practices and in basic cultural attitudes—a movement tending to absorb the whole world into *one civilization* ⁴⁷⁰

According to Gallino, in the last thirty years a westernization of the world occurred, that is the expansion of several structural elements of western civility to the rest of the world. This phenomenon marked the appearance of a “new civility” characterized by three key elements:

- a. a reciprocal crossing of the borders, with a structural modification of the main social subsystems. At the same time, the economy appears strictly tied with politics, while culture is a promotional instrument of that twist;
- b. the “new civilization” has no more borders;
- c. there is an interconnection between economies and labor market: in the last thirty years sprung thousand of enterprises controlled by multinational corporations with the core business

⁴⁶⁹ Harvey, *A Brief History*, p. 9.

⁴⁷⁰ R. Cox, *Beyond Empire and Terror*, p. 309.

in US and EU.⁴⁷¹

While neoliberalism was spreading all over the world, the breakup of Yugoslavia in 1991, the fall of the Berlin wall (1989) and that of the Soviet Union (1991) marked the collapse of the main bulwarks of the socialist world. These events let someone spoke about the “end of the history”⁴⁷², that is the definitive victory of US-led capitalism and liberal democracies, while the global conflict, in several discursive devices raised in the 1990s, was now addressed to the “clash of civilizations”⁴⁷³ – replacing the classic struggle between capitalism and socialism related to the Cold War.

In these respects, Robert Cox wrote that «The USA ... has been moving ... towards unipolar concept of world power in which the USA has emerged from the global conflicts of the Second World War and the Cold War as the paragon of economic, social and political order with a mission to transmit its values and its order to the rest of the world, both for the benefit of other peoples and to ensure the security of its own

471 L. Gallino, *Finanzcapitalismo. La civiltà del denaro in crisi*, Einaudi, Torino, 2011, 16-17.

472 See F. Fukuyama, *The End of History and the Last Man*, Free Press, 1992.

473 See S. P. Huntington, *The Clash of Civilizations and the Remaking of World Order*, New York, Simon & Schuster, 1996. Here follows a link of the first article proposed by the author and then expanded in the cited book. The article can be freely consulted:

<http://edvardas.home.mruni.eu/wpcontent/uploads/2008/10/huntington.pdf>

way of life. In part, this evolution in Us values has been encouraged by the collapse of Soviet power and the vision that this has left the American way as the “end of history” beyond which no fundamental change is conceivable». ⁴⁷⁴

The breakup of the *second* Yugoslavia, in these respects, entailed the gradual pass of the states emerged from the 1990s war to the European single market and, subsequently, to neoliberal capitalism.

Therefore, former Yugoslavia's transition from socialism to capitalism missed the phase of the so called “Rhineland model”⁴⁷⁵ to skip directly, in particular in the north of the country, to the neoliberal model characterized by mass privatizations, deregulation and liberalizations.

Later on in this chapter, this work will survey the neoliberal economic restructuring through several treaties as the Maastricht treaty (1992) and the Accession Treaty, as well as the European Commission's official documents related to Croatia's accession to EU and European Single Market (2013)⁴⁷⁶. These documents are important as they institutionalize a certain type of economic discipline: from privatizations to the discipline on State aid, the official EU documents reflect the neoliberal hegemony on the European

474 R. Cox, *Beyond Empire and Terror*, p. 316.

475 For a definition of Rhineland capitalism and for a comparison with the neoliberal US model see: M. Albert, *Capitalism Against Capitalism*. London: Whurr, 1993. For a brief consultation see the Wikipedia voice at the following link:

https://en.wikipedia.org/wiki/Rhine_capitalism

476 While I'm writing, Croatia is definitely entered in the European Union as 28th State (July 2013).

integration process and Croatia's accession.

In the words of Kees van der Pijl

In the demise of the USSR as well as in the conflicts that terminated Yugoslavia's existence, a comprehensive, transatlantic strategy of radically opening-up these societies to global capital triumphed over attempts to build spheres-of-influence in which the defunct state-socialist economies might have enjoyed some protection from straight world market competition⁴⁷⁷

In the next chapter I analyze the neoliberal hegemony on the European integration process, while in next chapter Eastern Europe as a “laboratory” for economic restructuring is taken into account. With respects to the latter issue, according to Johanna Bockman and Gil Eyal

After communist regimes in Eastern Europe collapsed in 1989, the new postcommunist regimes have embarked, at various speed, on neoliberal economic reforms designed to bring about rapid liberalization, macroeconomic restructuring and, ultimately, privatization.⁴⁷⁸

477 K. v. d. Pijl, *From Gorbacev to Kosovo: Atlantic Rivalries and the Re-Incorporation of Eastern Europe*, in *Review of International Political Economy*, Vol. 8, No. 2, 2001, p. 275.

478 J. Bockman, Gil Eyal, *Eastern Europe as a Laboratory for Economic Knowledge: The Transnational Roots of Neoliberalism*, in *American Journal of Sociology*, Vol. 108, No. 2, Sept. 2002, p. 311.

To some extent, western Europe and eastern-southeastern Europe, especially from the early 1990s⁴⁷⁹, went through a parallel process in which the macroeconomic restructuring – even if in the light of fundamental starting institutional, economic, social, political differences – had a common economic discipline and, for some of that countries, a common aim: the European Union. Also in this case neoliberalism showed a remarkable degree of flexibility as regard to the different contexts in which has been used as a general discursive strategy and as a sort of economic framework in the disposition of both transnational and national-based economic elites – therefore in the light of a new accumulation process, but always in the hand of the ruling elites.

2. The European Integration Process and Neoliberal Hegemony

The European integration process can be historically interpreted as a market-driven process in which the development of a supranational institutional framework has always been oriented to foster and then protect, also with a massive legislation, the freedom of markets.

On the other hand, the European institutional framework proceeded in its historical making in accordance with the

⁴⁷⁹ In reality, the process of gradual neoliberal economic adjusting started, ex gr. in the former Yugoslavia throughout the 1980s, while similarly in the European Community from the second half of 1980s.

general movement of capitalism and in accordance with the ideological/discursive and material hegemonic positions which marked every stage of that movement. Whether if the hegemonic position was held by the so called “Rhineland capitalism” or subsequently gained by neoliberal capitalism, the European integration process and its institutional framework reflected the material power relations of the time. In other words, the European integration process has been and still is the historical product of the action of organized groups, nationally or trans-nationally organized. In this respect, following the interpretative pattern of Andreas Bieler and David Morton «the revival of European integration in the mid-1980s and the emergence of a ‘New Europe’ have to be analyzed against the background of globalisation and the transnational restructuring of social forces since the early 1970s».⁴⁸⁰

So, as analyzed in the first paragraph of this chapter, from the 1970s and 1980s a new governmental rationality developed. Hence, gradually but steadily the old vision of the state intervention in the economy had to give way to “pure” market mechanisms freed from both restrictions and public-external interventions, these latter seen as a distortion in the achievement of the market equilibrium and optimum.

Gradually, during the 1980s in Europe the new market

480 A. Bieler, A. D. Morton, *Introduction: Neo-gramscian Perspectives in International Political Economy and the Relevance to European Integration*, in *Social Forces in the Making of the New Europe*, p. 4.

mystique and its corollaries (competitiveness, elimination of restrictions as workers' contractual rights, liberalizations, privatization, deregulation) implied the overcome of the Keynesian-oriented mixed economy. As I will show in this paragraph, the neoliberal-oriented economic provisions found a complete fulfillment in the European treaties, especially from Maastricht onwards.⁴⁸¹

About neoliberalism, in one of its course at the Collège de France, Michel Foucault spoke largely about its features and about the relation of market economy and government policies. According to the French philosopher, rather than having a mutual delimitation of State and market, there is a complete overlapping of market mechanism and government policies:

Avremo dunque una sorta di totale sovrapposizione dei meccanismi del mercato, ancorati alla concorrenza, e della politica di governo. Il governo, insomma, deve accompagnare dall'inizio alla fine l'economia di mercato. Il governo, infatti, deve accompagnare dall'inizio alla fine l'economia di mercato. L'economia di mercato, infatti, non sottrae qualcosa al governo, bensì indica, costituisce l'indice generale sotto il quale dovrà venire

⁴⁸¹ As Carlo Amirante pointed out, it is out of question that the EU relies on Euro, European Central Bank and markets to create an integrated economic area, while the so called democratic deficit, that is the lack of democracy in the decision-making process (the only institution voted by European citizens is the Parliament, which has improved its powers just from Lisbon Treaty, 2009) increased. The present situation, from Amirante, is characterized by a “main Europe” of markets and single currency and the “minor Europe” of citizens and institutions representing them. See *Unioni sovranazionali e riorganizzazione costituzionale dello stato*, Giappichelli, Torino, 2001.

collocata la regola destinata a definire tutte le azioni di governo. Si dovrò governare per il mercato piuttosto che governare a causa del mercato⁴⁸²

So, the capitalist discipline gave the imprimatur to the integration process and has been its main engine. For these reasons, the analysis of the European integration process from the first steps (1950: Schuman declaration) to its most recent developments (as the European Stability Mechanism, 2010⁴⁸³) embodied the general trends of the capitalist movement after the World War Second. Indeed, the process triggered by the political orientations of Jean Monnet was deeply connected with the different stages that capitalism passed through. Could it be a “Rhineland” capitalism or a neoliberal capitalism, could it foster an “embedded” liberalism or a rigid neoliberal discipline, the European integration process has always been a part of this global movement.

The treaty that marked a decisive acceleration of the European integration process was signed the 7th of February 1992 in the Dutch city of Maastricht. The Maastricht treaty

482 M. Foucault, *Naissance de la biopolitique. Course au Collège de France, 1978-1979*, Seuil / Gallimard, Paris, 2004. Italian edition: *Nascita della biopolitica. Corso al Collège de France 1978-79*, Feltrinelli, Milano, 2012, p. 112. Translation: «So, we will have a sort of total overlap of market mechanism, anchored on the competition, and govern policies. The government has to follow from the start to the end the market economy. The market economy, indeed, does not take away something to the government, but indicates and constitutes the general index under which there is the guiding rule of government policies. Govern for the market, rather than govern because of the market».

483 I will analyze this treaty later on, in the meantime it can be found here: <http://www.esm.europa.eu/index.htm>

remarkably enlarged the competences of the former three European Communities, which in turn became constituent parts of a “broader house”, the European Union.⁴⁸⁴ Even more interesting, the Maastricht treaty scheduled the realization of the Economic and Monetary Union (EMU) and the adoption of a common money, the euro, foreseeing it to come into force in 1999.

Prior to enter in the specific economic provisions introduced by the Maastricht treaty, the historical context in which the treaty was launched and the macroeconomic conditions during the 1980s must be surveyed.

First of all, the external factors that concurred to give a decisive thrust to the integration process were mainly linked to the collapse of Communism between 1989 and 1991, with the emergence of “new” States whose economies were abruptly opened to deregulated market relations. At the same time, as Neil Nugent put it, ancient fears after the reunification of Germany arose:

L'unificazione della Germania, che formalmente ha avuto luogo nell'ottobre del 1990, ha accresciuto il potenziale egemonico di questo paese sulla Comunità e indotto molti a concludere che bisognava accelerare il

484 See, among the others, R. Adam e A. Tizzano, *Lineamenti di diritto dell'Unione Europea*, Giappichelli, Torino, 2010; G. Tesauo, *Diritto dell'Unione Europea*, Cedam, Padova, 2013; N. Nugent, *The government and Politics of the European Union*, London, Macmillan, 1999 (Italian edition: *Governo e politiche dell'Unione Europea*, Bologna, Il Mulino, 2001).

processo di integrazione se si voleva che il futuro vedesse una Germania europea anziché un'Europa tedesca⁴⁸⁵

While seeking to strengthen the inter-European relations, many governments gradually moved toward right-wing positions, in the background of a general movement of conservative counter-revolution:

Lo spostamento verso misure dal lato dell'offerta, anch'esso sostenuto con forza e coerenza dalla commissione della CE nei suoi annuali rapporti sull'economia, fu a sua volta il riflesso di un più generale spostamento verso destra espresso in termini di politiche economiche ed evidente nella maggior parte dei paesi dell'Europa occidentale durante la metà degli anni Ottanta, anche a prescindere dalla colorazione politica dei partiti al potere⁴⁸⁶ [Tsoukalis: 1964, p. 62]

From the macroeconomic perspective, due to the II oil shock

485 N. Nugent, *Governo e politiche*, p. 74. Translation: «the unification of Germany, which formally was carried out in 1990, raised the hegemonic potential of this country on the Community. Many observers taught that the integration process needed a boost, because a European Germany was far more favorable than a “German” Europe».

486 L. Tsoukalis, *The New European Economy. Second Revised Edition*, Oxford University Press, Oxford, 1993. Italian edition: *La nuova economia europea*, Bologna, Il Mulino, 1994. Translation: «The shift toward supply-side measures, strongly and coherently sustained by the EC Commission in its report on the economy, was a repercussion of a broader move toward right-wing positions, expressed through the political economy and evident in the most part of of West European countries during the second half of 1980s, apart from the “formal” collocations of the parties that held the power».

of 1978-79 and the sudden rising of energy-related and commodity prices, the European economies started to be in recession. In the words of Loukas Tsoukalis

Le economie dell'Europa occidentale entrarono nel periodo di recessione più lungo ed oscuro dalla fine del secondo conflitto mondiale, la disoccupazione ad esempio raddoppiò nel corso di soli cinque anni [...] I paesi europei, che da lungo tempo erano abituati a confronti economici impari con il Giappone, per gran parte degli anni Ottanta dovettero rassegnarsi a prestazioni in termini di crescita economica e disoccupazione nettamente inferiori anche a quelle degli Stati Uniti⁴⁸⁷

As happened in the former Yugoslavia during the 1980s, the crisis ignited by the global economic downturn and, at the same time, the general recessive conditions were the occasions through which neoliberal and monetarist positions won the day. In the European case, the recession started right after the first oil shock of 1973:

Il periodo eccezionalmente lungo di crescita ampia e

487 L. Tsoukalis, *La nuova economia*, p. 58. Translation: «In the aftermath of the second oil shock of the two-years period of 1978-79, the European economies entered in the longest and darkest recessive period after the World War II, with unemployment rates doubled in just five years. The European countries, used to unfair confrontations with Japan, for the most part of the 1980s developed – due to the decrease of the economic growth and the rise of unemployment – even less than the US».

stabile, unita a livelli di occupazione mai sperimentati in precedenza, giunse pian piano alla fine. Dopo il 1973 esso cedette il posto ad una situazione nuova, caratterizzata da una decelerazione della crescita economica, percentuali decrescenti di investimento e produttività, inflazione galoppante, perdita di competitività internazionale e, ultima ma non meno importante, una crescita spaventosa della disoccupazione⁴⁸⁸

After the period of inflation during the 1970s, across the second oil shock, as noted by Jean Paul Fitoussi, the five most industrialized countries in the world during a G-5 summit in Tokyo followed a different strategy about money and inflation, pursuing a restrictive political economy

Per reagire allo shock petrolifero, i paesi occidentali decisero, paradossalmente, di scambiare meno tra loro, aggravando in tal modo le conseguenze dello choc. Il mondo intero si impegnò, in quel momento in una politica molto restrittiva [...] quella riunione del G-5 segnò una vera rottura con le pratiche di ispirazione keynesiana che avevano prevalso dalla fine della seconda guerra mondiale. Dopo Tokyo la disinflazione

488 L. Tsoukalis, *La nuova economia*, p. 38. Translation: «The exceptionally long-term period of large and steady development, along with employment rates never experimented before, came to an end. After 1973 occurred a decrease of economic growth such as a decrease of rates of investments and productivity rates, rising inflation, loss of international competitiveness and, last but not least, a sharp increase of unemployment».

divenne la priorità delle priorità⁴⁸⁹

In Europe during the 1980s there was a reduction of the global share of finished products in the world market, while unemployment was increasing in almost every European country. Indeed, the average rate of unemployment in the OCSE European countries arose from the 3,4 of the period 1968-1973 to the 5,1 of the period 1974-79 and in turn to the 8,8 of 1980-85 and to the 9,2 of 1986-1990.⁴⁹⁰ In particular in the pass from the second half of 1970s to the first half of the 1980s there was a sharp increase of unemployment in every country.

From the liberal and neoliberal perspective the recessive conditions and the loss of competitiveness were mainly addressed to the role of the State in the economy, to the legal protection of workers' rights and to the public expenditures related to the welfare state. In particular, after the two oil shocks (1973-74 and 1978-79) and after the rising of the oil prices – and in turn of the oil-related products – the European entrepreneurs found themselves pressed between the rising of prices and the rising of the price of labor, in particular because

489 J.-P. Fitoussi, *Le Débat interdit. Monnaie, Europe, Pauvreté*, Paris, Editions Arléa, 1995. Italian edition: *Il dibattito proibito. Moneta, Europa, povertà: come integrare stabilità finanziaria e sviluppo*, Bologna, Il Mulino, 1997, p. 16. Translation: «To react to the oil shock, the western countries paradoxically decided to reduce the exchanges among them, increasing the consequences of the shock. The whole world engaged itself in a restrictive political economy. That G-5 summit embodied a real break-up with the Keynesian practices, which inspired governments from the World War Second. After Tokyo, the disinflation became the priority».

490 Source: OCSE. In Tsoukalis, *La nuova economia*, p. 38.

of the political and social struggles during the 1960s and the 1970s, which improved the real incomes and salaries and the bargaining power of the trade unions. This trend, according to those theories, determined a decrease of profits and investments. Moreover, the welfare state policy and the social protection of the workers were other important causes related to the further European decline. Indeed, the inability of the European economies to adapt themselves to the international economic changes – due to high levels of labor protection and to the welfare states – determined the high levels of unemployment and the lack of competitiveness.

The sharp economic decline, as happened for the case of former Yugoslavia, determined the structural conditions in which neoliberal and monetarist positions could act first as a general discursive device – less State in the economy and more freedom for the markets and in general more flexibility in the economic field – and then as a real political agenda.

In these respects, the single market became the main force through which the European integration was carried out. Actually, the period of “eurosclerosis” that marked the years between 1970s and early 1980s was overcome by a new impulse of the European integration.

A completely free circulation of goods, capitals, services and money, in the light of a single common market for the countries of the EC, were the keystone of the neoliberal

positions

L'interesse per il completamento del mercato interno era un riflesso degli sviluppi nei negoziati del decennio precedente, della stagnazione degli scambi commerciali all'interno della Comunità e della crescente popolarità di misure dal lato dell'offerta e della deregolamentazione economica⁴⁹¹

Of course, the “rising popularity” of the supply-side measures and of the economic deregulation was not related to the “global population” but to those classes, the ruling classes, which found a *organic* ally in the European Community and especially in the European Commission.

The Community, indeed, through a newly established Commission headed by Jaques Delors published a White Paper (Titled *Completing the internal market*, 1986) in which the single market was indicated as the priority. The date of its completion was 1992.

The White Paper was perfectly compatible (if not inspired at all) with the hegemonic position of neoliberalism and monetarism. The aim of the Commission was fostering a single European market without internal barriers. European Community, in other words, was conceived as a free space for

491 L. Tsoukalis, *La nuova economia*, p. 68. Translation: «The interest in completing the domestic market was a reflection of the developments in the negotiates of the previous decade, of the stagnation of trade in the Community and of the rising popularity of the supply-side measures and economic deregulation».

market freedom.

As wrote in the *Paper*, the single market was «an area without internal barriers in which freedom of goods, services, capitals and workers circulation is ensured». ⁴⁹² Along with the White Paper, the second half of the 1980s was characterized by a treaty and several documents and acts linked with pro-market positions. In these respects, for example, the European Single Act (ESA) of 1987 while strengthening supranational institutions as the Justice Court, on the other hand “spelt out the goals of the internal market (that is, the four freedoms of goods, services, capital and labor)”. ⁴⁹³

The two-years period of 1988-89 marked an activism in fostering pro-market and neoliberal positions. In 1988 Germany held the presidency of the European Council. This element covered a primary importance because the Bundesbank was the European bulwark of the monetarist model. For this reason, using the words of Tsoukalis, it “acted as a bulldozer”⁴⁹⁴ in fostering the complete liberalization of capitals circulation.

The late 1980s was also a period in which several documents of the European Commission were published. These documents mainly concerned the internal market and, to some extent, became the political agenda of the European

⁴⁹² Art. 8, cited in L. Tsoukalis, *La nuova economia*, p. 70.

⁴⁹³ A. Bieler, A. D. Morton, *Introduction: Neo-gramscian Perspectives in International Political Economy and the Relevance to European Intergation*, in *Social Forces in the Making of the New Europe*, p. 3.

⁴⁹⁴ L. Tsoukalis, *La nuova economia*, p. 79.

governments. In these respects, one of the main examples is the so called Cecchini report [*Costs of Non-Europe*, European Commission, 1988a].⁴⁹⁵ The report, as many other papers of these years, sought to foster the elimination of any restriction for market freedom. The underlying economic conception was linked to foster the inter-European competitiveness, which in turn, with a complete opening of the frontiers would have implied a reduction of the costs. Uncompetitive producers would have been pushed out of the market, while the others would have benefited of economies of scale.⁴⁹⁶

The reading of the Commission's papers are useful to understand the discursive strategy of that historical period. In this respect, the so called Delors Report [*Committee on the Study of Economic and Monetary Union*] published in 1989 gave another decisive push, in the pre-Maastricht years, toward the neoliberal restructuring of national economies. In the words of Paul De Grauwe

A partire dagli anni Ottanta, il paradigma monetarista è diventato quello dominante, soprattutto tra i banchieri centrali [...] I banchieri centrali di tutto il mondo, e specialmente quelli europei, sono diventati i maggiori campioni del monetarismo [...] non desta sorpresa il fatto che al tempo in cui i banchieri centrali stilavano il rapporto Delors (il documento che indicava i pilastri

⁴⁹⁵ L. Tsoukalis, *La nuova economia*, p. 94.

⁴⁹⁶ L. Tsoukalis, *La nuova economia*, p. 95.

concettuali del Trattato [Committee on the Study of Economic and Monetary Union, 1989] il modello della Bundesbank andasse imponendosi. La Bundesbank individuando nella stabilità dei prezzi l'obiettivo primario e nell'indipendenza politica lo strumento per conseguirlo, appariva l'incarnazione del nuovo paradigma monetarista⁴⁹⁷

On the other hand, a reading of a very brief passage of the Commission's paper can illuminate about the role given to competitiveness and supply-side measures:

L'integrazione europea dovrebbe così contribuire ad un circolo vizioso di innovazione e concorrenza – la concorrenza provoca innovazioni che a loro volta dovrebbero accrescere la concorrenza⁴⁹⁸

In the papers of the Commission there is a great trust on competitiveness. In the *market mystique* fostered by the EC competitiveness as such is conceived as the main element

497 P. De Grauwe, *Economics of the Monetary Union* (7th ed.), Oxford, Oxford University Press, 2009. Italian edition: *Economia dell'Unione Monetaria*, Il Mulino, Bologna, 2010, p. 194. Translation: «From 1980s, the monetarist paradigm became dominant, specially among bankers [...] The world central bankers, and especially the Europeans, sustained monetarism [...] So, it is not surprising that when central bankers wrote the Delors report (the document which posed the conceptual framework of the Treaty [Committee on the Study of Economic and Monetary Union, 1989] the Bundesbank model was the ruling one. The Bundesbank, identified in the prices stability a primarily object and in the political independence the instrument to achieve that stability, embodied the new monetarist paradigm».

498 European Commission, *The Economics of 1992*, in *European Economy*, 35, March. Cited in Tsoukalis, *La nuova economia*, p. 94.

linked to the enlargement of the internal market. However, the evaluations of the Commission turned out to be wrong and the expectations were frustrated. In relation to the this element Tsoukalis wrote that «le varie stime ex ante degli effetti dell'allargamento del mercato interno dovrebbero essere considerate nella migliore delle ipotesi come rozzi indicatori della direzione e degli ampi ordini di grandezza [...] l'altra domanda alla quale lo studio della Commissione non pone nessuna risposta riguarda la possibile distribuzione di costi e benefici fra paesi, regioni e classi sociali».⁴⁹⁹

The analysis of the Commission identified the competitiveness and the elimination of the restrictions of market freedom as a positive element in itself, regardless to the benefits and costs differently bear by social classes or countries with different growth rates and economic performances and traditions.

Competition was not the sole central element in the Commission's papers. Indeed, while fostering competition, the Commission put a great importance on liberalization and deregulation of financial markets, especially in the south European countries. These countries were seen as less efficient than north countries mainly because of the strong economic regulation and protection. The trend toward a complete

499 Tsoukali, *La nuova economia*, p. 95. Translation «The evaluations of enlargement's effects of the single market must be considered rough indicators of the direction and of the orders of magnitudes [...] The Commission did not give any answer to the other issue related to the distribution of the costs and benefits among countries, regions, classes».

liberalization and deregulation of financial markets was the main ignition cause of the economic and financial globalization. As Jean-Paul Fitoussi noted, due to globalization/deregulation the capitals had a higher yield, in turn with higher profit opportunities related to the possibility of invest them directly in the most profitable markets.

Of course, the European financial integration was a part of this trend. In 1989, for example, the Commission launched three Directives through which the banking sector was liberalized as well as all the financial services.⁵⁰⁰ The European financial integration of financial capitals was carried out on the 1st July 1990. From that date, capitals could circulate freely in the European space. At the same time, governments met great obstacles in the taxation of financial capitals, due to the aforementioned global deregulation. The path toward the increase of disparities was growing. Fitoussi, in relation to this issue, asked how “we could have been so improvident” in deregulating the financial capitals prior to having harmonized, for equity issues, the “contradictions” of the taxation on capitals' profits. A material conception of history always look at the forces which act within the society. In this case – as I will analyze later on introducing several critical theories about the European integration process – the ruling social forces aimed at increasing the opportunity to broaden the financial rent.

500 L. Tsoukalis, *La nuova economia*, p. 95;

Social policies and the new paradigm of flexibility in the labor market. As Loukas Tsoukalis put it, in the revival of the European integration process Labor played a poorly relevant role. The author argued about a direct relation between the weakening of trade unions in the 1980s (as a function of the recession), the high unemployment rate, the structural changes in the economy and the integration process.⁵⁰¹ The so called neo-gramscian school, for instance, stresses the role of a transnational ruling class in fostering a determined type of pro-market and pro-business integration, rather than pro-labor policies. This historical materialistic theoretical approach to European integration process takes into primarily consideration the role of the organized forces in the society.

Generally speaking, the efforts of the Commission went into the direction of increasing the degree of flexibility in the labor market. Gallino listed the main characteristics of the concept of flexibility in labor market⁵⁰²:

- a. Freedom for an enterprise to fire workers without any sanction;
- b. Possibility for an enterprise to reduce the working hours or to resort to overtime (even without notice);
- c. Possibility for an enterprise to pay lower wages to bear the international competition or to stop the decline of the turnover.

501 L. Tsoukalis, *La nuova economia*, p. 158-159.

502 L. Gallino, *Se tre milioni vi sembran pochi*, p. 30-31.

Other corollaries of the flexibility are: possibility for the enterprises to distribute arbitrarily the working tasks in the day or in the week and to move workers to foreign offices. Even more important is the possibility for an enterprise to commit a part of its production to other enterprises (externalization) and, at the same time, to hire fixed-term workers, apprentices, trainees etc, while avoiding to hire workers with a full-time contract.⁵⁰³

The flexibility, in this approach, operates in two directions: lowering salaries and increasing working-force mobility. In relation to the first, salaries flexibility pushed toward a general reduction of salaries improvements and toward a greater flexibility in working contracts, especially those of young workers. In relation to the workforce mobility, the idea was to achieve the mobility of workers such as of capitals, services and goods.

On the other hand, the social dumping of workforce, in these years, became a sort of common fear linked to the European market integration. Actually, the workers of more developed countries expressed the fear of an unfair competition with those countries that had a less protection of workers' right and overall a lower level of wages. Now, after more than twenty years from the Maastricht treaty, and with the European Union made up by 28 states, the fears about the social dumping were right. Indeed, the trend of the European

⁵⁰³ L. Gallino, *Se tre milioni vi sembrano pochi*, p. 31.

enterprises to choose those countries with a lower labor cost increased⁵⁰⁴, in turn dramatically increasing unemployment. What happened in those years of gradual deregulation in the market labor is a downward pressure of wages and a sharp reduction of labor costs, due to the outsourcing of the enterprises toward those countries that have a lower labor cost. Hence, while middle-class profits were increasing, workers' wages were steady decreasing; this trend, already appeared in the 1980s, but the Commission relied on the redeeming “magic of market” (words of Ronald Regan):

La crescita economica avvenuta alla fine degli anni Ottanta [era] venuta a coincidere con l'aumento delle disparità sociali dei redditi nella maggior parte dei paesi e con una distribuzione diseguale degli effetti del mercato interno tra differenti gruppi e classi sociali⁵⁰⁵

At the same time, the issue of welfare state must be briefly called into question. After the crisis ignited by the I oil shock (1973-74) the welfare state policies have been in a perennial crisis due to their costs: with the outsourcing of production and subsequently with the increasing of unemployment and average age of the population in western countries, welfare state policies – those policies tied with the thirty-years period of economic expansion after the World War Second – became

504 Of course, this trend started in 1970s and involved the whole world.

505 L. Tsoukalis, *La nuova economia*, p. 159.

gradually unbearable for the governments. In these respects, the new discursive strategy fostered cuts in public spending and downsizing of social policies, moving toward private form of social protection as in the case of the pensions. Thus, welfare state became no longer sustainable, according to those who fostered cuts spending, because of:

- its cost, that burdens on the enterprises (in particular because, due to taxation, it increases the cost of labor) and restrains the competitiveness;
- weighs excessively on GDP and the state budget;
- with respect to social protections, the dole, *ex gr.*, deters people to search for a job.⁵⁰⁶

The welfare state, however, in this discursive strategy became the main cause of unemployment, even if, as noted by Gallino, there is no direct relation between social expenditures and unemployment. On the contrary, the steady outsourcing of the enterprises in those parts of the world with a lower labor cost has always had a direct relation with the unemployment in the western countries.

Thus, the gradual downturn of wages, the increasing of unemployment, the reduction of social protection and the rising of income differentials are some of the economic trend linked to neoliberalism.

The overcoming of Keynesian policies about welfare state and Fordism about the mode of producing, as Christian

⁵⁰⁶ L. Gallino, *Se tre milioni vi sembran pochi*, p. 55.

Marazzi put it, reflected a political strategy:

Si tratta della politica liberista delle casse «vuote» o dello «Stato povero», cioè l'uso di entrate supplementari non per consolidare lo stato sociale, ma per ridurre le imposte sui redditi e sul capitale o [...] per azzerare il debito pubblico accumulato negli ultimi decenni⁵⁰⁷

However, neoliberal hegemony on European integration found a fundamental moment in the Maastricht treaty (1992).

Neoliberalism in the making. The Maastricht Treaty. Maastricht treaty embodies the political economy of neoliberalism. From an economic perspective issues as public debt, inflation and markets indicate, beyond any reasonable doubt, that the historical process of European integration was just aligned with the ruling ideological and material orientations of the time⁵⁰⁸. In other words: the European integration process is conceived as a part of a broader capitalist movement internally ruled by neoliberalism.

Banking model, public debt, inflation, State aid, role of money, along with the aforementioned four fundamental freedoms foreseen in the treaty – that is, the free circulation of capitals, goods, workers, services –, far from being neutral and technical elements, fully reflect the neoliberal discipline.

⁵⁰⁷ C. Marazzi, *Capitale e Linguaggio. Dalla new economy all'economia di guerra*, Roma, DeriveApprodi, 2002, p. 82.

⁵⁰⁸ That still is “our time”, even if after the world financial and economic crisis of 2007 the post-keynesian theories had gained a new legitimation.

The European banking model, for example, reflects the Bundesbank model, that is a monetarist oriented model. European Central Bank (EBC) – opposite to the Italian, French and British model – was based on the complete independence of the central bank from the government influence, as prescribed by the monetarist theory. Bank's role is to guarantee prices and financial stability, a low inflation and, through this objectives, high employment (even if this latter is clearly a secondary issue in comparison to prices stability).

At the same time, apart from a central bank, Maastricht treaty did not foresaw a Ministry of the Economy and Treasury, depriving completely the European Union of political economic instruments. In other words, there has not been provided political decision over the economic field believing in the self-regulatory nature of markets. In this respect, the treaty empowered European institutions to the surveillance of the conditions for the free play of markets, neutralizing any other political element – even if, this *already* is a political strategy.

At the state level, the Maastricht treaty fixed the economic criteria to enter in the European Union and overall in the European Monetary Union (EMU). Seventeen countries then joined eurozone (or Euro area)⁵⁰⁹

The path to EMU has been carefully disciplined by the Maastricht treaty. A country can join the Euro area and the EU

⁵⁰⁹ The eurozone portal: <http://www.eurozone.europa.eu/home/>

if it respects the “economic convergence criteria”. They are⁵¹⁰:

- an inflation rate not exceeding 1,5% of the average of the three countries with the lower inflation rate;
- a long-term interest rate not exceeding 2% of the average of the three countries with the lower inflation rate;
- a budget deficit not exceed 3% of the GDP;
- a public debt not exceeding the 60% of the GDP.

In 1998 eleven countries were supposed to respect those criteria: Austria, Belgium, Finland, France, Germany, Italy, Luxemburg, Netherlands, Portugal and Spain. Slovenia entered in the EMU in 2007.

From the macroeconomic perspective, the issue of the “convergence criteria” is central in the analysis of the neoliberal disciplining of eurozone.

But, a clarification is essential. The criteria reflected a political strategy and, broadly speaking, a political orientation. This orientation has been completely addressed to create an institutional (both: political and economic) system functional to guarantee the best conditions for market freedom: on one hand, fostering flexibility in labor market and mobility of workforce, while decreasing salaries and labor cost; on the other hand, depriving the states of some of the fundamental instruments of the political economy as the monetary expansions.

So, in case of recession – as the one we're passing through

⁵¹⁰ P. De Grauwe, *Economia dell'Unione Monetaria*, p. 170.

from 2007 – the state can just use the taxation, and so the fiscal policy, to foster counter-cyclical measures and try to relaunch economy. For these reasons, in these years the taxation on profits from capitals was dramatically decreased.

No active public-state intervention is allowed: the classic Keynesian economic policies, in which the state uses the monetary stimulus to create employment through, for example, infrastructural works – acting on the demand-side relaunching it – were banned.

Even more interesting is the question of monetary policy as foreseen in the Maastricht treaty and recently strengthen by the Lisbon treaty⁵¹¹ (2009). The issue is related to the political economy of the eurozone. According to the Treaty on the Functioning of the European Union (TFEU), the European Union has got an “exclusive competence in the monetary policy for the Member States whose currency is the euro” [art. 3, (C)]. These means that *constitutionally* the states that joined the Euro area *de facto* lost the main instrument of the political economy, that is the monetary policy – therefore, one of the *specimen* of the national sovereignty of modern state. At the same time, another exclusive competence of the EU concerns “the establishing of the competition rules necessary for the functioning of the internal market” [art. 3, (B)]. These two economic exclusive competences mark an historical transition

⁵¹¹ The Lisbon treaty is composed by two separate treaties, the Treaty on the European Union and the Treaty on the Functioning of the European Union.

from the traditional function of the State in the economy to a supranational institutional framework which holds *the competence and the control* of the market discipline.

restructure economies and discipline European societies according to new market beliefs, clearly emerges from a brief reading of the fundamental rules of the Treaties, such as from a brief analysis of the European historical integration process. We should not forget that the four fundamental freedoms foreseen by treaties, for examples, are economically-related and concern free circulation of capitals, goods, services, workers. As we should not forget the prominent and relevant role given to privatizations, liberalizations and deregulation of financial markets. As well as the weakening to workers' protections while fostering the downturn of wages and flexibility of labor contracts.

This economic framework, moreover, was built to impede every kind of public intervention – national or supranational – in the economic field, apart of the taxation. During the economic recessive trends, for example, the states cannot intervene with counter-cyclical measures, as well as the EU, which lack of an Ministry of Economy and Treasure.

Recalling the theoretical approach of Foucault (analyzing the neoliberal disciplining of European economic and political integration), if post-modern state found its rule – its

constitutional rule – and material basis in economic freedom,⁵¹² *a fortiori* the European supranational institutional framework (which *now* has got an almost exclusive sovereignty in economic regulation) finds its political legitimation in market rationality.

3. A Troubled pass to Europe. The Neoliberal Discipline of the Post-socialist Transition of Eastern and Southeastern European Countries

The pass to Europe, mainly entailed by the approach of Eastern and Southeastern countries to the EU and to the European Single Market during the twenty years after the collapse of the socialist world, has been an underlying movement of a broader pass from a socialist and planned economy to a certain type of capitalist governance, which in the words of Stephen Gill can be defined as “neoliberal discipline”⁵¹³. Of course, every Eastern and Southeastern country undertook its own path following the institutional and party system, the composition of economic and political ruling elites or, *ex. gr.*, the economic development.

To some extent, capitalism after the collapse of the Soviet Union and former Yugoslavia spread out in every Eastern and Southeastern country without any significant resistance. The

512 M. Foucault, *Nascita della biopolitica*, p. 83.

513 S. Gill, *Constitutionalising Capital: EMU and Disciplinary Neo-Liberalism*, in *Social forces in the making of the New Europe*, p. 47 and following.

former socialist countries restructured in few years their economies through mass privatization of state-owned assets, economic liberalization, market relations and deregulation – while opening their economies to direct foreign investments (FDI) and transnational corporations (TNCs). “Neoliberal ideology – wrote Karl Kaser – have guided the transition taking place”.⁵¹⁴

At the same time, according to several scholars, while the social world collapsed and capitalism reached those world areas, the relation between West and East was moving, or better was renewing the binomial “center-periphery”, but as new peripheries of capitalism. In other words, while a discursive strategy was identifying the margins of Europe as “backward, inefficient, underproducing, politically juvenile, oppositional in their identities, and generally untrustworthy”,⁵¹⁵ a new Orientalism – or better, Balkanism⁵¹⁶ – was already developing in the Western approach to East. And, as happened in other world areas, the Eastern and Southeastern Europe had to be “disciplined” following Western standards:

In the postcommunist era, the east of Europe is

⁵¹⁴ K. Kaser, *Economic reforms and the illusion of transition*, p. 97, in *Central and Southeast European Politics since 1989*, edited by S. P. Ramet, Cambridge University Press, Cambridge, 2010

⁵¹⁵ E. Dauphinée, *Faith, Hope, Neoliberalism: Mapping Economies of Violence on the Margins of Europe*, in *Dialectical Anthropology*, Vol. 27, No. 3-4, Revisions of Nationality and Cultural Identity in Contemporary Europe (2003), p. 194.

⁵¹⁶ See, in the first case, the work of Edward Said, *Orientalismo*, Bollati Boringhieri, Torino, 1991, while in the second Maria Todorova, *Imaging the Balkans*, Oxford University Press, New York, 1997.

understood to be just one such malleable entity because of its susceptibility to the guidance offered through Western political and economic assistance. Indeed, not only can these states be transformed, but they *must* be transformed if they wish to be understood as properly European [...] occurs as post-socialist states are instructed in, and respond to, democratization, marketization, restructuralization, privatization, liberalization, and so on.⁵¹⁷

Similarly, Kraser argued that the westernization, through the admission of the East/Southeast in the European framework, was accompanied by a list of conditions which included economic liberalization, opening of the countries to foreign trade, privatization of state-owned assets etc. «The present economic relations – wrote Kraser – between East-Central and Southeastern Europe and the West are still patron-clientele or core-periphery relations».⁵¹⁸

As a matter of fact, neoliberalism (as a total discursive strategy) played a pivotal role in that broad area assuming the hegemonic position about the economic restructuring. Fostered, as I will show in a few line, by the European Commission and by the Western economic elites, this kind of capitalist phenomenology strengthen the discursive devices about the self-regulatory nature of market, competition,

⁵¹⁷ E. Dauphinée, *Faith, Hope, Neoliberalism*, p. 194.

⁵¹⁸ K. Kaser, *Economic reforms and the illusion of transition*, p. 91.

efficiency, performance etc., in the light of a new discipline to be imposed to the Eastern and Southeastern new entries.

In general, every Eastern and Southeastern state passed to capitalism at different paces, generally with a “shock therapy” that entailed relevant social costs. The general pattern was the one already analyzed in relation to the general neoliberal restructuring of state economies, that is cuts of public spending, liberalizations, wages downturn and conversion of the currency.

As noted by Kaser referring to Poland (but the discourse could be extended to all Eastern and Southeastern countries) «the stabilization program resulted in a sharp decrease in real incomes, a large increase of unemployment, and a collapse of industrial production. The social costs of the shock therapy were unexpectedly high. In 1994, incomes were 35% less and poverty had risen from an estimated 17% of the population in 1989 to 45% in 1994. The poverty rate more than tripled in all socio-economic groups».⁵¹⁹ To some extent, the impressive frame depicted by Kaser is the same – with the same social harmful effects – already analyzed in relation to the shock therapy imposed to former Yugoslavia throughout the 1980s (Chapter II, paragraph V).

However, the path of the Eastern and Southeastern countries toward the European Single Market and the EU started right after the collapse of the USSR and Yugoslavia. In 1993, the

⁵¹⁹ K. Kaser, *Economic reforms and the illusion of transition*, p. 97

Copenhagen European Council formulated the accession criteria to EU membership. These criteria, along with the importance given to institutional stability, stressed the key element of a functioning market economy, “as well as the capacity to cope with competitive pressures and market forces within the Union”.⁵²⁰ Analyzing the Copenhagen criteria (in note), Heather Grabbe pointed out that, starting by saying that “the thrust of the EU's economic agenda for CEE is neoliberal”⁵²¹, the criteria arose several problem in the application to Eastern and Southeastern countries because they were fit to economies and societies with very different socioeconomic structures. Starting from this point, it consequently follows the question of the shock therapy made up by the aforementioned economic provisions, imposed within a few years: the criteria, according to Grabbe, were not designed for countries in transition.⁵²²

On the other hand, in relation to the benefits of the enlargement, Marjan Svetličič and Andreja Trtnik pointed out that, apart of merely cost-driven considerations, in the

520 O. Holman, *Central and Eastern European Enlargement*, in *Social Forces in the Making of the New Europe*, p. 178-179. The conditions set in Copenhagen for the membership are:

- a. the achievement of stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
- b. a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
- c. the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. See: H. Grabbe, *European Conditionality and the “Acquis Communautaire”*, in *International Political Science Review / Revue de science politique*, Vol. 23, No. 3, Enlarging the European Union: Challenges to and from Central and Eastern Europe, 2002, 251.

521 H. Grabbe, *European Conditionality and the “Acquis Communautaire”*, p. 252.

522 H. Grabbe, *European Conditionality and the “Acquis Communautaire”*, p. 253.

historical perspective the benefits of the integration of Eastern and Southeastern countries are several, mainly related to security and peace. Starting by saying that the authors consider the enlargement successfully even from the economic perspective (as a thrust to foster competition and economic development), the main argument that they propose is that enlargement represent: an investment of long-lasting peace in Europe; the opportunity to unite Europe by peaceful means; an investment in both prosperity and in restoring Europe to a prominent world economic power; the mean to improve European competitiveness.⁵²³ At the same time, continuing in the historical perspective, they add a warning: «the cost-dominated approach is very dangerous because it could encourage nationalism as well as extremism, including racism. Groups that will lose some of their incomes due to enlargement tend to be well organized and could form a very loud opposition to enlargement [...] High unemployment rates make this situation very similar to the situation facing Europe before War World II, and everybody knows the results of those fundamentally racist policies that were upheld at the time as a solution».⁵²⁴ No-one, reading this passage, could underestimate the problem of nationalism and racism. The point, however, is not nationalism by itself, but the material conditions in which

523 M. Svetličič, A. Trtnik, *European Union Enlargement: Is Enthusiasm Waning?*, in *Eastern European Economics*, Vol. 37, No. 4, 1999, p. 83.

524 M. Svetličič, A. Trtnik, *European Union Enlargement: Is Enthusiasm Waning?*, p. 82-83.

nationalism usually rises. The position of the authors as regard to cost and benefits of the enlargement lacks in the analysis about *who* bear the costs and benefits of the enlargement: that is, which social classes. Moreover, as analyzed in the first paragraph in relation to neoliberalism, the high unemployment rates are mainly related to neoliberal (shock-therapy) restructuring of Eastern and Southeastern economies: in other words, it is true that unemployment could be a political issue useful to nationalists to foster a broad opposition against European integration, but to dismantle the nationalist bomb it is first of all necessary to understand:

- a. the historical economic causes of the structural unemployment;
- b. the costs of the enlargement *specifically and differently* beard by social classes, groups, etc. In other words: who win and who lose within the European integration process.

In this respect, the case of former Yugoslavia analyzed in the chapter II, par. V, is paradigmatic: ethno-nationalist were able to have the upper hand because of the rapid economic crumbling of the country, mainly related to austerity therapy, or, in other words, to the ongoing restructuring of its economy.

Throughout the 1990s, especially on initiative of the

European Commission, several papers and documents related to the accession of Eastern countries were published. In 1995, *ex. gr.*, a Commission's paper had as main subject 'to provide a guide to assist the associated countries in preparing themselves for operating under the requirements of the EU's internal market'.⁵²⁵ Similarly, in 1997 the paper *Agenda 2000* provided an opinion on each candidate country as regard to economic criteria. According to the Commission, the accession negotiations had to be opened to five countries: Hungary, Poland, Czech Republic, Estonia and Slovenia. Thus, in 1998 the negotiations with the mentioned countries (plus Cyprus) started. Holman, on this issue, noted that the economic criteria had the upper hand on the political ones:

A closer look at the Commission's 1997 opinions and its subsequent progress reports clearly shows the primacy of economic criteria over political ones. More concretely, the existence of a functioning, competitive market economy and the ability to take on the obligations of membership are the two criteria on which most of the attention is concentrated. Of particular importance in this respect is the adjustment of administrative structures in the applicant countries so that EU legislation can be implemented effectively. Since most of this legislation is related to the single market and its 'four fundamental freedom [goods, capitals, services, workers, editor's

⁵²⁵ Quoted in O. Holman, *Central and Eastern European Enlargement*, p. 179.

note] it is no exaggeration to conclude that *the Commission's pre-accession strategy is basically about disciplining the candidate members in terms of free market integration* [emphasis mine]⁵²⁶

In few years, Eastern and Southeastern countries opened their economies to direct foreign investments and to international financial institutions as FMI. The capital inflow to that countries had no restrictions. But, prior to analyze this issue, the human agency of organized social groups must be briefly called into question. As analyzed in the first paragraph, neoliberalism was deeply linked with a political strategy of a transnational economic elites to win back the profits lost due to the action of organized labor and to extend capital accumulation to new markets with lower labor cost. The collapse of socialism, in this respect, entailed first of all the possibility to have free access to brand new markets. The main enterprises body, that is the European Roundtable of Industrials (ERT) on 1st December 1997 through a *Message to all 15 EU Heads of State and Government* clarified its position on the accession of Eastern countries:

Enlargement offers a golden opportunity to raise the competitiveness and prosperity of the whole European economy (existing EU members and new

⁵²⁶ O. Holman, *Central and Eastern European Enlargement*, p. 181.

candidates alike) provided that is done on the basis of sound economic principles, free competition and open markets⁵²⁷

The integration, in the opinion of the members of the ERT, was nothing but a further weapon to reach new markets with a lower labor cost, through the strategy of outsourcing the production: «the method of internationalization and export orientation – in the words of Kaser – in the first years of transition in Central-East Europe was (and in the Balkan countries still is) outward-processing trade which recalls the times of proto-industrialization. Western firms supplied subcontractors in the region, especially in Central-East European countries, with materials, parts or components to be processed and re-imported afterwards. *This enabled Western firms to take advantages of low wages and to reduce production costs*» [emphasis mine].⁵²⁸

On the other hand, the role of IMF and other international financial institution was central in the pass to neoliberal capitalism or to disciplinary neoliberalism:

Bond traders and institutional investors and public agencies such as the IMF, World Bank, the Bank for International Settlements and the EU tend to press to

⁵²⁷ Quoted in O. Holman, *Central and Eastern European Enlargement*, p. 174.

⁵²⁸ K. Kaser, *Economic reforms and the illusion of transition*, p. 94.

'sound policy' by governments⁵²⁹

In relation to the Eastern and Southeastern countries, as noted by Elizabeth Deauphinée, the role of these international financial lenders entailed (and entails until present) a control of the economies. In other words, FMI had a surveillance power:

This “virtual control” of national, and by extension, local economic decision-making capacity is achieved through a number of IMF mechanisms, including conditionality in lending and surveillance. Under the Articles of Agreement that “form the core of its constitution, the IMF has a mandate to exercise firm surveillance over the exchange rate policies of members in order to oversee the international monetary system and ensure its effective operation” [...] Thus, any state's attempt to shirk its neoliberal responsibilities is to be regarded as a “deviation”⁵³⁰

529 S. Gill, *Constitutionalising Capital: EMU and Disciplinary Neo-Liberalism*, in *Social forces in the making of the New Europe*, p. 47 and following.

530 E. Dauphinée, *Faith, Hope, Neoliberalism*, p. 197.

3.1 Escaping from Balkans. The discursive Strategies of Croatian and Slovenian Elites and their “new” European Identity

In little more than twenty years after the breakup of the socialist Yugoslavia (1991) Croatia and Slovenia gradually but steadily sought to reconstruct a national identity that, on one hand, rejected the Balkan legacy, while on the other fostered a new self-perception rooted in a new European identity. These discursive practices, in spite of the recent events, actually had deep historical roots and dealt with the construction of the Balkans as an “imagined community”⁵³¹. As Stefano Petrunaro put it, across the XIX and XX centuries in Europe developed a discourse whereby the Balkans were associated to the Dinaric mountains, that is a raw and brutal world. At the same time, this kind of imaginary became part of the Balkan self-perception:

Non è una percezione che riguarda solo gli osservatori esterni. I balcanici stessi soffrono di balcanismo. Ciò può significare che viene fatto proprio il discorso balcanista in generale, il quale presuppone una superiorità dell'Europa occidentale in termini di civiltà⁵³²

Subsequently, the Balkans themselves gradually developed a conflict between two opposite worlds: the plain – homeland

⁵³¹ S. Petrunaro, *Balcani. Una storia di violenza?*, Carocci, Roma, 2012, chapter I.

⁵³² S. Petrunaro, *Balcani. Una storia di violenza?*, p. 19.

of civil, democratic and urban values – and the mountain – homeland of a bellicose and rude attitude –, as well as the city and the country. The 1990s war, as Petrunaro noted, strengthened again these kind of discourses. In other words, the historical discourse was used as a weapon: the cosmopolitan mentality of the city was opposed again to the backwardness of the countryside/mountain. This opposition, moreover, was merely transposed to the social characteristics of the people living in the city rather than in the mountainous areas: therefore, in the latter case the inhabitants of the Dinar mountains mainly were Serbs and Montenegrins, while in the first case the inhabitants of the peaceful and democratic plain – also known as *zadruga* – were Croats.⁵³³

The concept of Balkanism, on the other hand, was restrengthened after the 1990s wars and became a general discourse device under which a series of stereotypes were reinvigorated, but in a new shape. While in Europe during the 1990s neoliberalism reached the cultural and material hegemony, in the Balkans old stereotypes, mainly rooted in a supposed Balkan violence and backwardness, definitely resurfaced. At the same time – given the fact that through neoliberalism a system of values grounded on economic and market-oriented criteria reached the hegemony – stereotypes were not just related to violence or general backwardness, but also to economic unreliability. So that, in the case of the

⁵³³ S. Petrunaro, *Balcani. Una storia di violenza?*, p. 20-21-22.

Balkan troubled pass to Europe, the transition dealt first of all with the new western economic fashion. In other words: if Balkans aimed at being a part of European Union, they should restructure their economies in order to meet western neoliberal discipline.⁵³⁴

The application of Slovenia and Croatia to EU membership became the occasion to separate themselves from the Balkan legacy. The same – *racism 2.0?* – approach used by Westerns has been used by Croatia and Slovenia in relation to other Balkan states. «Balkanism – wrote Nicole Lindstrom – plays an important role in the construction of Croatian and Slovenian national identities. Croatian and Slovenian utilized similar discursive means to promote themselves as progressive, hardworking, tolerant, democratic Europeans in contrast to the primitive, intolerant and backwards Balkans»⁵³⁵.

So, the “return to Europe” has several meanings and implications for both Slovenia and Croatia. If, from an economic perspective, the post-socialist transition to European Union and European Single Market had deep effects on the

534 However, this discursive strategy has generally been used by the political and economic elites of the most developed capitalist countries, becoming thus a discursive device used by media and politicians of the same “undisciplined” countries. Indeed, the issue of the unreliable, backward, inefficient, underproducing people has been generally applied to South Europe countries, such as Italy, Spain, Portugal, Greece and the Balkans. That is, those countries *in which there was another kind of capitalism – the corporate/embedded capitalism – and that must be disciplined by neoliberalism*. Those countries in which the left-wing organizations played a key role in fostering a new development model, evidently not compatible with the profits of economic elites and with the neoliberal model.

535 E. Lindstrom, *Between Europe and the Balkans: Mapping Slovenia and Croatia's “Return to Europe” in the 1990s*, in *Dialectical Anthropology*, Vol. 27, No. 3-4, 2003, p. 316.

restructuring of their economies after the collapse of socialism, from the national-identity perspective the European integration meant a sort of “level transition” from the Balkan backwardness to the European democracy. Lindstrom reported that the Tuđman's slogan in 1997 was “Tuđman, not the Balkan”, and that «Tuđman rose to power on the promise that he would free Croatia from the so-called Balkan darkness of Yugoslavia and ensure its rightful place in Europe». ⁵³⁶ On the other hand, the nationalism of Tuđman regime was also hostile to West ⁵³⁷, accused of a world conspiracy to force Croatia “back onto Balkans”. But, in the post Tuđman period the approach of Croatia to both Balkans and Europe re-softened, as embodied by the Western Balkan summit (2000) in Zagreb, the Stabilization And Association agreement with the EU (2001) and the application for EU membership (2003). ⁵³⁸

Also the case of Slovenia deserves attention: in this case the reconstruction of a national identity passed through a “pure” historical discourse. According to Lindstrom

Many formations of Slovenia national identity link the origins of Slovenia to the medieval kingdom of Carantania, which included the present day territories of

⁵³⁶ E. Lindstrom, *Between Europe and the Balkans*, p. 320.

⁵³⁷ Especially after “US and Western Europe began to distance themselves from the Tudman regime in the late 1990s”: Lindstrom, *Between Europe and the Balkans*, p. 320.

⁵³⁸ See: <http://ec.europa.eu/enlargement/countries/detailed-country-information/croatia/>

Austria, Hungary, Slovenia which existed as an independent entity until the middle of the eighth century when it became part of the Frankish Empire. According to popular myth, Carantania was the birthplace of both Slovenia nation and modern democracy⁵³⁹

Slovenia, right after the secession from former Yugoslavia aimed at the integration into the European institutional framework and NATO, while definitely exiting from the Balkans. According again to Lindstrom «like Tuđman's claim that Croatia's links with the Balkans between 1918 and 1990 was “just a short episode in Croatian history”, Slovenians leaders also suggest that Slovenia was a “foreign body” in the Balkans over the last century»⁵⁴⁰.

The pass to Europe, as seen in relation to the reconstruction of a national-identity – as well as to Balkanism as a new Orientalism –, acted on different plans, equally worth of analysis. A new economic-oriented system of values can not be taken into account regardless to the material changes occurred in the economic structure. At the same time, the cultural and material changes can not be analyzed without taking into account the action of both national and supranational economic

539 E. Lindstrom, *Between Europe and the Balkans*, p. 318.

540 E. Lindstrom, *Between Europe and the Balkans*, p. 321.

and political elites, as well as to the European institutional framework. Now, it is worth a specific analysis of the economic restructuring of Croatia, a paradigmatic case of transition from an economic system to a very different one. Moreover, Croatia from the 1 of July 2013 is the 28th EU member state. The set of documents analyzed in the next paragraph is mainly the *corpus* of European Commission's official documents, but also agreements and accession treaties. This choice is dictated by the fact that the Commission is the European institution that, more than others, oversees the proper neoliberal economic restructuring throughout every phase of the application for the EU membership. Hence, a reading of treaties, agreements and Commission's official documents shines a precious light on the subject of this study.

3.2 Croatia's Transition from Self-managed Socialism to Neoliberal capitalism

Croatia applied for the EU membership in 2003 and from 2005 to 2011 was in negotiation. The western Balkan country became the 28th EU member on the 1st July 2013. But, before reaching the official status of EU member country, Croatia signed several agreements with the EU and throughout the interim period held the position of observer within the European institutional framework, while adjusting its economy

to meet the Copenhagen criteria.

The path of Croatia toward the European Union started in 2000 with the Balkan summit held in Zagreb, which launched the Stabilization and Association process⁵⁴¹. One year later, the first agreement between the Western Balkan countries and the EU – that is the Stabilization and Association Agreement (SAA)⁵⁴² – was signed (2001) and by 2005 it came into force⁵⁴³. The SAA put the basis for the gradual adjustment of Croatia political and overall *economic structure* in order to achieve the full membership: one of the main point of the Agreement dealt with *the four freedoms, with the creation of a free trade area by 2007 for industrial products and most agricultural products*. The Agreement, on one hand, provided first several political criteria as the political dialogue among Parties (art. 7 and followings) or the regional cooperation with other states that have signed the SAA (art. 12 and followings) and Eu member countries, in particular in relation to the

541The Stabilisation and Association Process (SAP) is the EU's policy framework for the countries of the Western Balkans - Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Montenegro See <http://www.delhrv.ec.europa.eu/?lang=en&content=2742>

542 Here the full text of the SAA agreement:

http://www.delhrv.ec.europa.eu/images/article/File/l_02620050128en00030220.pdf

The Agreement covered areas such as:

- political dialogue;
- regional co-operation;
- the four freedoms, with the creation of a free trade area by 2007 for industrial products and most agricultural products;*
- approximation of the legislation of Croatia to the EU acquis, including precise rules in the fields such as competition, intellectual property rights and public procurement;
- wide-ranging co-operation in all areas of EU policies, including in the area of justice, freedom and security.

543<http://www.delhrv.ec.europa.eu/?lang=en&content=63>

liberalization of trade and “mutual concessions concerning the movement of workers, establishment, supply of services, current payments and movement of capital”.

But, the major attention was addressed to the economic field, disciplined by really detailed provisions. In relation to these provisions, the SAA was extremely clear as regard to the path that had to be done by Croatia in order to restructure its economy. More precisely, the economic discipline foreseen in the SAA promoted the removal of restrictions to market freedom. For example, the title V, *Free movement of goods*, listed all the adjustments required: from the suppression of quantitative restrictions in relation to agriculture and fisheries (art. 26) to the abolition of custom duties to, on the other hand, the prohibition of fiscal discrimination of imported goods. State commercial monopolies, according to the art. 40, had to be adjust in order to eliminate any kind of discrimination “regarding the conditions under which goods are procured and marketed exists between nationals of the Member States and Croatia”. As happened to other member states, monopolies had to be gradually dismantle and state industry privatized.

The title V concerned the *Free movement of workers, establishment, supply of services and capitals*. Also in this case the effort of the agreement dealt with restriction removal: in relation to establishment freedom, the art. 49 provided that “Croatia shall facilitate the setting-up o of operations on its

territory by Community companies and nationals”, guaranteeing the conditions of a free competition without any kind of state intervention, apart of the surveillance of the fair application of the rules concerning market freedom.⁵⁴⁴

The SAA provided the same liberalizing policies as regard to supply of services (art. 56-58), current payment and movement of capital (art. 59-61),⁵⁴⁵ competition rules (art. 69)⁵⁴⁶ and competition and other economic provisions (70). The art. 70 disciplines carefully the competition rules that Croatia had to take on listing, *ex. gr.*, the economic provisions incompatible with the Agreement – and which could “affect trade”.

The last remarkable article of the Agreement was the art. 82, which dealt with the economic policy: “The Community and Croatia should facilitate the process of economic reform by cooperating to improve understanding of the fundamentals of their respective economies and implementing economic policy

544 The only exceptions provided by the SAA were related “to air transport services, inland waterways transport services and maritime cabotage services”.

545 Art. 60 par. 1: “With regard to transactions on the capital and financial account of balance of payments, from the entry into force of the Agreement, the Parties shall ensure the free movement of capital relating to direct investments”;

Art. 60 par. 2: “With regard to transactions on the capital and financial account of balance of payments, from the entry into force of this Agreement, the Parties shall ensure the free movement of capital relating to credits related to commercial transactions or to the provision of services in which a resident of one of the Parties is participating, and to financial loans and credits, with maturity longer than a year”.

546 Art. 69, par. 2: “[...] In particular, at an early stage, it will focus on fundamental elements of the Internal Market acquis as well as on other trade-related areas, on the basis of a programme to be agreed between the Commission of the European Communities and Croatia. Croatia will also define, in agreement with the Commission of the European Communities, the modalities for the monitoring of the implementation of approximation of legislation and law enforcement actions to be taken”.

in market economies”.

This overview of the SAA is useful to understand the neoliberal economic restructuring that Croatia had to take on to be a UE member state and to enter in the European Single Market.

The role of the Commission, on the other hand, was related to oversee that Croatia undertook the reforms aimed at implementing, if not creating *ex novo*, a full market economy.

After the SAA, Croatia started a steady dialogue with the EU and the European Commission in particular. In 2003, in the EU-Western Balkan⁵⁴⁷ Summit held in Thessaloniki, the EU officially established its “unequivocal support to the European perspective of the Western Balkan countries. The future of the Balkans is within the European Union”, continuing to follow the path drew in Zagreb. On this issue, the final declaration stated that

Stabilization and Association process (SAP) will remain the framework for the European course of the Western Balkan countries, all the way to their future accession. The process and the prospects it offers serve as the anchor for reform in the Western Balkans, in the same way the accession process has done in Central and Eastern Europe. Progress of each countries will depend on its own merits in meeting the Copenhagen criteria

⁵⁴⁷ In the Western Balkans were included: Albania, Bosnia and Herzegovina, Croatia and the former Yugoslav Republics of Serbia and Montenegro.

and the conditions set for the SAP and confirmed in the final declaration of the November 2000 Zagreb summit⁵⁴⁸

On the same issue also the European Commission officially declared that “the Thessaloniki Summit provides the occasion to give a new impetus to the Stabilisation and Association process”. The European Commission played the pivotal role in the process of economic (and institutional) restructuring, as:

- a. a guide for the countries which aimed to be a EU members;
- b. the main European institution involved in the supervision and the surveillance that the Copenhagen criteria would be met and then respected.

In that circumstance, *ex. gr.*, the Commission introduced the European Integration Partnership, which “would identify priorities for action in supporting efforts to move closer to the European Union”. These priorities were established by Commission and included in the Annual Reports that the Commission itself used to thrust the Western Balkans to adjust their economies in relation to the Copenhagen criteria.

By 2003, Croatia officially applied for the EU membership and in 2004 the Commission gave a positive opinion, through a long and detailed survey, on the country's application for membership. The document is titled *Opinion on Croatia's*

⁵⁴⁸ See EU-Western Balkan Summit, official Declaration, 10229/03 (Presse 163) – Press release.

*Application for Membership of the European Union*⁵⁴⁹

In the analysis of the economic transition from socialism to neoliberal capitalism, this official document/survey is central to understand the role of the Commission in fostering the economic neoliberal-oriented reforms. Indeed, the Commission's document is a detailed analysis of the general – economic, political, institutional, judiciary and social – conditions of Croatia and the further measures to adopt. In particular, I will analyze the paragraph 2 of the Commission's paper, titled *Economic criteria established in Copenhagen*⁵⁵⁰ and focused on the pre/post socialist economic conditions; on the results of the economic restructuring *at least* carried out from the sign of the SAA and on the further measures that Croatia had to take on to complete the market-oriented reforms.

The Commission stressed the importance of a functioning market as a part of the European Single Market and, at the same time, the importance of flexibility, human and physical capital and, in general, the capacity to cope with market pressures – that is the Copenhagen's criteria:

549 Here the full official opinion of the Commission:

http://eur-lex.europa.eu/LexUriServ/site/en/com/2004/com2004_0257en01.pdf

550 The Paragraph 2 – so the one related to the Commission's economic analysis – is divided as follows:

2.1: Economic developments (p.38), subdivided in: a. Macroeconomic Background and b. Structural change;

2.2: Assesments in terms of Copenhagen criteria (p. 43), subdivided in a. The Existence of a Functioning Market Economy and b. The Capacity to Cope with Competition Pressures and Market Forces;

2.3: General Evaluation (p. 54).

These criteria [the Copenhagen criteria, *editor's note*] are linked. Firstly, a functioning market economy will be better able to cope with competitive pressure. Secondly, in the context of membership of the Union, the functioning market is the internal market. Without integration into the internal market, EU membership would lose its economic meaning, both for Croatia and for its partners⁵⁵¹

So, the Commission's *Opinion* started its analysis from the pre-independent Croat conditions⁵⁵². The Commission pointed out that the country, due to the self-management socialism and social ownership, had an higher share of services in GDP than other Eastern countries. At the same time, the Commission highlighted that the strong economic growth experienced by the country from 1950 to 1980 was related to the high ratio of public investments (30%) supported by heavy external borrowings. Moreover, the Commission's report stated that “despite persistent trade deficits, the pre-independence balance of payments recorded current account surpluses equivalent to 7-8% of GDP”. During the 1980s, due to the “debt crisis” the macroeconomic situation was characterized by a persistent stagnation, and from 1987 to 1991 the GDP fell up to about 11% – of course, there is no mention about the role of IMF and other financial institution in the economic breakup of the

⁵⁵¹ From now the document in analysis will be specified as EC, *Opinion*, (p. 38).

⁵⁵² EC, *Opinion*, p. 38-39.

country during the 1980s.

After the independence, and mainly due to the war (finished just in 1995), the country entered in a period of recession: tourism dropped of 10% of pre-war levels, and infrastructure and housing suffered a direct damage due to the war. The changes in the economic system and the loss of several Eastern markets, along with the costs of the war, rising unemployment and high inflation ignited internal and external imbalances and recession. The GDP started to grow again in the late 1993 and from 1994 to 1997 it increased at an annual average of 6%.⁵⁵³

In 1997 the economic situation started to worsen again. Due to signs of overheating mainly related to credit expansion, the monetary policy was tightened. In the words of the Commission “A combination of tight monetary policy, a drop in domestic demand and deteriorating loan portfolios of banks evolved into a banking crisis in 1998/99”. However, GDP started to grow again after 2000: from 2000 to 2002 the growth pace was about 4%.

Labor market and unemployment. In relation to labor market the data are relevant, especially in relation to unemployment. As analyzed in the chapter 2, paragraph 2.3, from 1965 to 1975 unemployment fluctuated from the *a maximum* of 6,1% (1966) to a minimum of 4,3% (1971)⁵⁵⁴, while in general the

553 With the “paternal” protection of FMI and World Bank: «Transition to a market economy was initiated early after independence and the World Bank and the IMF considered Croatia in the mid-90s as one of the most successful countries in transition», EC, *Opinion*, p. 39.

554 See Chapter II, par. 2.3, Table n. 5.

unemployment rate in the former Yugoslavia reached – before the ongoing crisis during the 1980s – the peak of 10,2% in 1975.⁵⁵⁵

After the independence, the increase of unemployment was one of the main costs of the economic transition to market economy. Reading in the Commission's paper:

The unemployment rate (ILO standard) rose from 10% in 1996 to up to 17.0% in the first half of 2001 and then declined again to 14.4% in the second half of 2002. Unemployment rates vary significantly between counties, ranging from 13% to 40%, with particularly high rates in border regions. Long-term unemployment accounted for some 53% of total unemployment in 2002⁵⁵⁶

Youth unemployment rates (15-24) were high, standing about 34,4%. However, as noted by the Commission, the most productive sector failed in jobs creation, so that the transition toward a market economy entailed the increasing of unemployment.

Foreign direct investments. The FDI remained low until 1995, due to the insecurity related to the war. After the war period, however, the FDI started to grow. From 1993 to 2002 the total of FDI inflows totaled 7.45 billion euro: 75% of

⁵⁵⁵ See Chapter II, par. 2.3, Table n. 4.

⁵⁵⁶ EC, *Opinion*, p. 39-40.

investments flowed from the EU, 15% from the US. The FDI were address to privatization projects mainly in banking, telecommunications and pharmaceutical sector.⁵⁵⁷

Industrial policy. After the breakup of the former Yugoslavia, Croatia experienced a process of de-industrialization. The socialist industrial development had always had a thrust by public investments, mainly related to the strong international position of the country – so that it could rely on foreign loans. After the country's secession, due to its strategic and economic weakness (and at the same time because of the costs of the war), the industrial sector gradually declined. “The importance of manufacturing – we can read in the Commission's paper – which accounts for some 71% of industry (including construction), has declined in terms of both share of GDP (21.6% in 2001) and employment (21.3% in 2001)”⁵⁵⁸. On the other hand, in the services just tourism increased from about 50% of GDP at the time of independence to roughly 60%.

Privatizations. Of course, the pass to market economy marked the privatizations of the means of production. The first step toward privatization already occurred during the Ante Marković's government. As reported by Mladen Lazic and Laslo Sekelj, 160 000 small and medium-size private enterprises were founded by 1990, with the support of IMF.⁵⁵⁹

⁵⁵⁷ EC, *Opinion*, p. 40.

⁵⁵⁸ EC, *Opinion*, p. 41.

⁵⁵⁹ M. Lazic, L. Sekelj, *Privatisation in Yugoslavia (Serbia and Montenegro)*, in

After the secession, in Croatia mass privatization took place. The privatization process was based on two laws:

a. the Transformation Act of 1991, which covered a total of 3,000 socially-owned companies (with the exception of 10 large infrastructure and utility companies designated as public enterprises);

b. the Privatization Act of 1993, amended in 1996. Since 1996, public enterprises were privatized on the basis of separate laws: the first stage of privatizations took the form of insider buyouts (management and employees), while the second stage of privatization (from 1993 onwards) shifted to public auctions and tenders, which were particularly successful after allowing the acquisition of shares against frozen foreign currency deposits. Eventually, voucher privatization effectively started in 1998 but produced only short-term results until the economic crisis. In relation to strategic assets, the Commission pointed out that

The privatization of public enterprises and other “strategic” assets (e.g. banks) not covered by the transformation and privatisation laws only started at the end of the decade under growing fiscal pressure⁵⁶⁰

Eventually, after the secession was created the National Bank of Croatia, which, differently from the previous socialist

Europe-Asia Studies, Vol. 49, No. 6, 1997, p. 1057-1058.

⁵⁶⁰ EC, *Opinion*, p. 41-42.

system was independent to the government, as regard to the monetarist model. The stabilization of the money, in the absence of an effective money market, was carried out with an anchor money: first the Deutsche mark, and then the Euro.⁵⁶¹

Toward the EU. The Copenhagen criteria and the neoliberal discipline. As stated above, this overview of the economic transition of Croatia from socialism to market economy mainly follows the paper of the Commission. This paper contains precious information by itself and in relation to the EU/Commission's strategy with respect of a new member. If we take into account the paragraph 2.2., *Assessment in terms of the Copenhagen criteria*, we can easily understand that by 2004 (the date of the Commission's paper) the neoliberal disciplining was already a concrete and fully developing process:

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy⁵⁶²

⁵⁶¹ EC, *Opinion*, p. 40.

⁵⁶² EC, *Opinion*, p. 43.

However, the Commission pointed out that until 2000 Croatia relied on the GDP/macroeconomic growth, while with the new government (the Commission never mentioned Tuđman government nor the post-Tuđman one) the economic push shifted from general macroeconomic growth to fiscal and structural consolidation. The tight monetary policies and, in general, the decrease of the role of the state started to be a common strategy: “the Croatian government adopted a medium-term strategy and subsequently refined its developmental priorities”⁵⁶³; at the same time, IMF and World Bank supported the economic and fiscal Croat policies with several agreements.

With respect to the trade balance/current account deficits, the merchandise trade deficit declined in the slowdown period (until 1999) and widened after 2000: the deficit was about an average of 20.2% of GDP throughout 1996-2002 and 23.51% GDP in 2002. According to the analysis of the Commission, the causes of the trade balance deficit were related to the domestic demand and private consumption, to the government founded construction programs and to the economic slowdown.⁵⁶⁴ With respect to the current account balance deficit, it averaged the 6.3% of GDP from 1996 to 2002 and 7.1% in 2003. The Commission pointed out that the current account deficit have been financed by FDI and foreign

⁵⁶³ EC, *Opinion*, p. 43.

⁵⁶⁴ EC, *Opinion*, p. 44.

borrowings, ignited an external debt increase from 26.7% of GDP by 1996 to 68.5% GDP by 2002. At the same time, in spite of the FMI program imposed to the country, by 2003 the external debt reached the 72%.

In relation to unemployment, the Commission stated that it averaged high rates from 1980s onward. The main causes of the unemployment were addressed to the dismantling of the public and social enterprises, to the growth of wages above productivity and to “a rather high burden of social contributions and a high labour market rigidity”⁵⁶⁵. However, in the light of the economic restructuring of labor market, Croatia, eventually adopted amendments in labour fields to increase flexibility:

Finally, amendments to the labour law (including more limited rules on severance pay), were adopted in mid-2003 aiming at increasing flexibility in the labour markets⁵⁶⁶

Other Commission's evaluations in relation to the economic restructuring of Croatia dealt with:

- *the low inflation rate*: as seen earlier in the text, a low inflation is one of the bulwarks of the neoliberal and monetarist political economy. In these respects, Croatia's

⁵⁶⁵ EC, *Opinion*, p. 45.

⁵⁶⁶ EC, *Opinion*, p. 46.

inflation rate was 4.3% from 1996 to 2002, 2.2% in 2002 and 1.5% in 2003⁵⁶⁷;

– *macroeconomic stability*: from late 1990s monetary policy was tightened and “ had to bear the main burden of ensuring macroeconomic stability as fiscal policy became increasingly expansionary. After 2000, fiscal policy gradually contributed to a stable macro-economic environment”; this goal with has been reached with the cut of the public expenditure⁵⁶⁸;

– *price liberalization*: the Commission appreciated the Croatian gradual shift to the complete liberalization of prices. Indeed, the EC pushed toward a complete liberalization of prices also as regard with those sectors in which prices are administratively controlled (agricultural products, public transport, basic community and postal services)⁵⁶⁹;

– *the role of the state in the economy and the path of privatizations*: under the rule of ‘less state, more market’, the Commission noted that “*although withdrawing, the state is still predominant in several sectors of the economy*”⁵⁷⁰, such as education, health, postal and community services, public utilities but also agriculture, manufacturing, transport etc. On the other hand, the banking sector was almost totally private (99%) and so the sector of trade (93.1%). However, the path

567 EC, *Opinion*, p. 46.

568 EC, *Opinion*, p. 46.

569 EC, *Opinion*, p. 46-47.

570 EC, *Opinion*, p. 47.

toward privatization was implemented by Croatian government after 2000, in particular through the Croatian Privatization Fund (HFP), so that «in the period January 2000 to December 2002, the state portfolio was reduced from 1,860 to 1,056 companies, mainly through the sale of minority shares, but was at roughly the same level as of August 2003. The number of companies in the portfolio constantly changes due to the cancellation of past share acquisition agreements. In mid 2003, there were still 170 companies with a majority state share in the portfolio whereas the state held less than 25% of shares in 822 companies»⁵⁷¹. The Commission, however, noted that the former public and socially-owned enterprises still had an important role in the economy, especially as regard of sectors as oil, telecommunications and electricity: nevertheless, also in these sectors further steps toward privatization were taken: a stake of 51% in the sector of telecommunications was sold to a foreign investor, while the 25% of the oil company INA was sold as well to private investors.⁵⁷²

– *barriers to market enter and exit*: in the light of the establishment of a free market without barriers, the Commission pointed out that due to administrative regulations, difficulty in access to finance and the rigidity of labor law, there was a significant difficulty to start-up a firm, “so that domestic markets dominated by a few business groups with a

⁵⁷¹ EC, *Opinion*, p. 47.

⁵⁷² EC, *Opinion*, p. 47.

low level of competition”⁵⁷³. However, the Commission highlighted that further measures had to be taken to implement a high competitive market and bear the pressures of the competition;

– *financial sector*: after the complete privatization of the financial sectors, *foreign banks controlled about the 90% of Croatian total banking assets*: «From the beginning of 2004, the Croatian banking sector comprises 42 banks essentially dominated by 6 banking groups, as well as 4 housing savings banks and 1 savings bank».⁵⁷⁴ The entry of foreign banks, noted the Commission, entailed the widening of the services provided in the financial sector as well as an intensification of the competition through the lowering of the cost of those services; on the other hand, «credits to enterprises recovered in the past two years after the recession-induced decline in demand in 1999: total loans corresponded to 26.6% of GDP at the end of 2002, thus reaching again the level of 1998. The difficulties of using immovables as collateral, as well as the long bankruptcy proceedings, undermine a sufficient protection of creditor and property rights and affect lending. In combination with the perceived higher profitability of household lending and the lack of access of households to direct foreign borrowing, this has resulted in a weaker credit growth to enterprises than to households»⁵⁷⁵;

⁵⁷³ EC, *Opinion*, p. 48.

⁵⁷⁴ EC, *Opinion*, p. 48.

⁵⁷⁵ EC, *Opinion*, p. 48.

In conclusion, and in relation to the Croatian capacity to cope with market pressures and competition, the Commission stated that «Croatia can be regarded as a functioning market economy which should be able to cope with market pressures and competition»,⁵⁷⁶ while, at the same time, a strong political consensus about the economic reforms has been achieved.

Moreover, and it is even more interesting in relation to the analysis of the economic restructuring of the country, the Commission gave a positive opinion about a future membership with regard to⁵⁷⁷:

- a. macroeconomic stability and low inflation, which along with
- b. structural reforms “undertaken so far permit the working of market mechanisms”;
- c. liberalization of prices as well as trade and privatization in general;
- d. banking sector, tourism, well educated labor force and a good road and telecommunication infrastructure.

On the other hand, the Commission pointed out that market mechanism still needed improvements, in particular enterprises restructuring and privatization had to be accelerated, such as “the necessary reforms of the fiscal and social security systems as well as the public administration”.

⁵⁷⁶ EC, *Opinion*, p. 48.

⁵⁷⁷ EC, *Opinion*, p. 54.

The Commission's *Opinion on Croatia's Application for Membership of the European Union* clarifies the role of the Commission about the restructuring of Croatian economy – even if the discourse could be extended to every other European country, especially those of the South, Central, Eastern and Southeastern Europe – as regard to the neoliberal political economy. The pass of Croatia to EU, in particular right after Tuđman government, meant a pass to neoliberal capitalism. In other words, the European Single Market and the EU required a functioning market system freed from restrictions and, more generally, a rigid neoliberal discipline. The reading of the Commission's paper enlightens beyond any doubt the issue.

Also the framework of the negotiations – officially started in 2005 – confirmed that the membership was related to “Croatia's own merit” in meeting the Copenhagen criteria and the role of the Commission as the engine of the new accessions in the EU.⁵⁷⁸

Indeed, the point 28 stated that

the Commission will closely monitor Croatia's progress
in all areas, making use of all available instruments,

⁵⁷⁸ The Negotiations framework can be read here:

http://www.delhrv.ec.europa.eu/images/article/File/HR_negotiating_framedoc_en.pdf

including on-site expert reviews by or on behalf of the Commission. The Commission will inform the Council of Croatia's progress in any given area when presenting draft EU Common Positions⁵⁷⁹

In these respects the Commission, from 2005 to 2013, officially reported every year the state of the Croat fulfillment of membership requirements. At the same time, from 2008 to 2011 were held almost fifteen Accession conferences and Intergovernmental conferences to carry out the negotiation.⁵⁸⁰ Requirements that were fulfilled because on 9 December 2011 the Accession Treaty was signed following the Commission's favorable Opinion of October 2011 and the European Parliament's assent of December 2011.⁵⁸¹ So, Croatia became an EU member on 1 July 2013.

To some extent, as can be easily readable by the last *Communication from the Commission to the European Parliament and the Council*⁵⁸² (dated 26.3.2003), the process of the European integration of Croatia was eventually carried out when the country reached several priorities, among which those in the economic field were:

⁵⁷⁹ Negotiating framework, p. 7.

⁵⁸⁰ The key date of the Croat path to EU can be readable at the following link:

<http://www.delhrv.ec.europa.eu/?lang=en&content=63>

⁵⁸¹ At the referendum held on 22 January 2012, 66.27% of Croatian voters supported Croatia's accession to the European Union.

⁵⁸² European Commission, *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL. Monitoring Report on Croatia's accession preparations*, Brussels 23.3.2013, COM(2013) 171 final: link to http://www.delhrv.ec.europa.eu/files/file/articles-20130326_report_final-1364291346.pdf

– the privatization of the *Brodosplit* shipyard, with all the necessary decisions to find a viable solution for the shipyards *3.Maj* and *Brodotrogir* in order to complete the restructuring of the Croatian shipbuilding industry⁵⁸³. Every other state-owned firms must be submitted to a privatization process;

– the meeting of the requirements in relation to antitrust, mergers and State aid (forbidden), in particular through the Croatian Competition Agency (CCA), an independent agency with the commitment to guarantee and control fair market relations: in other words, market should be free from any kind of restriction and this agency as a surveillance duty.⁵⁸⁴

The Accession Treaty⁵⁸⁵, that is the most important document related to the accession to the EU, was signed after almost a decade of neoliberal restructuring and surveillance of the Croatian fulfillment of the membership criteria. The treaty, with its framework, just strengthened further that political economy; through the Accession Treaty, therefore, the Croat governments accepted as its fundamental law the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), that is the treaties that establish the EU institutional framework among the 28 member states.

⁵⁸³ EC, *COMMUNICATION*, p. 2-3.

⁵⁸⁴ EC, *COMMUNICATION*, p. 3.

⁵⁸⁵ At the following link the text of the Treaty:

<http://www.delhrv.ec.europa.eu/files/file/articles-st14409.en11-1323455241.pdf>

The Croatian mission of reaching Europe has been accomplished, such as the European mission to foster and shape another free market area. Croatia, the newest EU member state, eventually succeeded to dismiss the Balkan legacy.

Therefore, nothing has been written on the social costs of the economic restructuring of this troubled *pass to Europe*, on the winners and the losers of the transition from self-managed socialism to neoliberal capitalism. Nor a comparison between the two systems has been made. Yet, with regard to such a problematic comparison, several criteria could be used, *ex. gr.* the issue of democracy at the enterprise level. Could it be argued that the neoliberal capitalist discipline has implemented democracy at that level? Or, could it be argued that privatization of enterprises – usually purchased by foreign investors –, flexibility in the market labor, structural unemployment, decrease of salaries and reduction of workers' rights, such as the reduction of the welfare state policies brought *material* benefits to Croatian people? In other words, assuming *ex. gr.* the point of view of workers, could it be argued that their conditions after the post-transition to capitalism improved? These are open questions that must be analyzed further.

Even if the Croatian economic restructuring (as the restructuring of other Central, Eastern and Southeastern countries) has been carried on from almost a decade, the recent accession to EU during the deepest crisis of its history makes the material costs of the accession really uncertain, especially with respect to the material costs beard by the working class.

Anyhow, from this point onward history is yet to be written, and surely it is not over.

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