YUGOSLAVIA: PERILS IN MARKET REFORM FOR A DEVELOPING ECONOMY

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I. INTRODUCTION

Once upon a time, Yugoslavia represented the great hope for an alternative to Soviet-style central planning, what some referred to as the 'third way.' The Yugoslav experience, however, which resulted in its eventual collapse, prompted many social theorists to question the compatibility between social ownership and the market mechanism of resource allocation (Estrin, 1991; Flaherty, 1992). At the peak of its economic performance, between 1950 and 1961, the Yugoslav system was a period of transition which could be thought of as administrative self-management. The introduction of workers' self-management granted autonomy to enterprises over decisions of production, wages, and even prices to an extent, but the federal government maintained administrative control over domestic prices, foreign trade, and investment. During this period, the economy boomed, experiencing the highest rapid growth in Europe. However, the market reforms introduced in 1961 exposed the country to market forces the country was not prepared for engendering business cycles, unemployment, inflation, and balance of payment deficits. The subsequent reforms of 1965 would double down on the market reform experiment resulting in a further deterioration in economic performance.

In this paper, I will walk through the various features of these reforms and problems that resulted from the market socialist experiment of Yugoslavia, as well as a comparison of performance of the system after. Section II will trace the political causes and rise of the workers' self-management system in Yugoslavia, as well as the reforms by which it was instituted between 1950 and 1960. Section III follows the country's evolution toward market socialism with the series of reforms between 1961 and 1973. Section IV will briefly address the BOAL reforms which can be viewed as a step backward from market socialism, but introduced bureaucracy into an already weak market structure; exacerbating republic relations and setting the stage for the country's inevitable collapse. Section V will conclude with consideration of the socialist features of these systems and propriety of such systems for a developing country like Yugoslavia.

II. THE RISE OF WORKERS' SELF-MANAGEMENT

Yugoslavia experienced catastrophic destruction during World War II. What little industrial development existed before the war had all but been wiped out by its end.[1] As it was the communist-led resistance which expelled the Axis powers in 1945, led by Marshal Josip Broz Tito, the Soviet Union was a natural ally. Given the urgent need to restore Yugoslavia's industrial capacity and infrastructure, adopting the Soviet-style central planning, which had worked remarkably well in industrializing Soviet Russia, was met with little second thought by the Yugoslav communists. By the end of 1946, most large enterprises and industry were nationalized. Land reform followed shortly after redistributing farm land among peasants and beginning the process of collectivization. In 1947, the first five year plan based on the soviet model was introduced. By the end of the same year, productivity and output had surpassed pre-war 1938 levels (Allcock, 2000). By 1948, any remaining industries and retail businesses were nationalized; only artisan workshops, small retail outlets, and peasant farms were allowed to be privately owned. However, the era of central planning would be short lived as tension began to ferment between Soviet and Yugoslav leadership.

Having liberated itself from the Axis powers with little assistance from the Soviets, Yugoslav President Tito behaved with an increasing sense of independence relative to the rest of the European socialist states of the Cominform. Increasing tensions with Western Allies resulted in several armed provocations, which Stalin opposed to prevent escalation of conflict with West. Yugoslavia also began to reconsider aspects of the Soviet central planning model, developing new strains of Marxist thought critiquing the political and economic structure of the Soviet Union. It would also begin developing an economic plan independently of Moscow. Political tensions eventually culminated in the expulsion of Yugoslavia from Cominform in 1948, at the behest of Stalin, forcing Yugoslavia into the position of the only independent socialist state in Europe. Stalin thought at the time that Soviet disapprobation of the Tito regime would cause it to lose favor with the people; Stalin underestimated the popularity of the leader that liberated the Yugoslav people from the Axis Powers. When that did not work, Stalin allegedly ordered Tito to be assassinated. Tito survived five assassination attempts on his life (Medvedev et al. 2003).

A major consequence of the expulsion from the Soviet Bloc was the need to find new trading partners as Yugoslavia was dependent for nearly half of its imports from them at the time.[2] The break up also coincided with the onset of the Cold War, and Western Allies were quick to notice the fissure with the Soviets. Replacement trade partners were acquired fairly quickly and with no "indication that the terms of trade...were worse than those which they were

[1] According to Allcock (2000), those losses included 82,000 buildings destroyed, 35 percent of its industrial capacity, and 50 percent of railway tracks, 77 percent of locomotives, and 84 percent of wagons. Approximately 3.5 million Yugoslav citizens were homeless. Yugoslavia was also the largest recipient of aid by the United Nations Relief and Rehabilitation Administration, receiving $415 million or one-fifth of total payments to European economies between 1945 and 1947.

[2] For some imports, dependency was much greater: All of Yugoslavia's coal and coke imports, 80 percent of its pig iron, 60 percent of its petroleum products, four-fifths of its fertilizer requirements and virtually all specialized machinery, steel tubes, railway cars and locomotives came from the Soviet Union and its satellites. Now trade from this source dried up completely (Allcock, 2000).

forced to abandon" (Allcock, 2000). Yugoslavia also received frequent military and financial aid from the West, especially from the United States, increasing its influence on the country.

Another consequence of the break up with the Soviet Union was to strengthen the independence of the country. The newly developing strains of Marxist thought now had to reevaluate central planning entirely. This predicament set Marxist theoreticians off in what Hovat (1976) called a "search for authentic socialism. They started by going back to Marx and Engels for guidance. As Hovat (1976) notes, "Marx and Engels maintained that commodity relations and the market would disappear along with private ownership; there would be comprehensive planning: production and distribution would be organized without the mediating role of money." For a long time it was thought comprehensive planning meant central planning by the state and no private ownership meant state ownership. However, Marx and Engels had never drawn that conclusion. On the contrary, the state was the instrument of bourgeoisie class domination over the proletariat which Marx and Engels, especially Engels, denounced declaring "it would wither away in a classless society," and, in its stead, "talked about the self-government of producers" as the owners of the means of production (Horvat, 1976). "Far from being truly socialist, state ownership turned out to be a remnant of capitalism, characteristic of backward countries that are building socialism and likely to generate dangerous bureaucratic deviations" (Horvat, 1976). This revelation led to the belief that workers' self-management should replace the state apparatus, and the state would eventually no longer have a role in the operations of the economy.

Worker self-management was introduced in 1950 with the passage of the Law on the Establishment of Workers' Management over Enterprises and Higher Economic Associations. Employees now played a key role in decision-making of the enterprises. According to Estrin (1991), workers' councils were formed to appoint managers, determine internal pay structures, recruitment procedures, as well as the allocation of profits between reinvestment and wage increases. Workers did not own the means of production however. Plants and equipment were considered to be assets of the state, but workers did have real autonomy not found in any other socialist economies of the time.

In 1951, the legislature passed the Law on Planned Management of the National Economy which replaced the central planning with indicative planning by means of mandatory proportions. The mandatory proportions revolved around the wage fund to ensure some level of profits above input and wage costs. These regulations also set the minimum use of output capacity, and required investment in capital formation. In this way, the central government could regulate consumption and investment without administrative directives. The reforms also replaced the former Federal Planning Commission by two new bodies, the Federal Institute for Economic Planning and the Federal Statistical Institute, initiating a decentralization process which devolved many administrative functions to the republic level (Allcock, 2000). The 1952 reforms included liberalization of prices and foreign trade with a new exchange rate and tariff regime, and laid the foundation a commercial legal code (Estrin, 1991). The state also retained

considerable control over investment allocation, which continued to be financed through high taxes on enterprises.

It is also important to consider foreign trade in Yugoslavia at this time. Being a small economy with no monopoly of natural resources to export, such as oil, Yugoslavia was dependent on foreign sources for capital goods. Thus, its independence from the Soviet Bloc required Yugoslavia to integrate itself into the international community. This meant more pressure to open itself up to international trade as well. Prior to the 1952 reforms, the state monopolized foreign trade in accordance with its central planning objectives. The federal government acted as the middleman between Yugoslav enterprises and foreign trading partners requiring special licenses by the Ministry of Foreign Trade. The official exchange rate was established at fifty dinars, the Yugoslav national currency, to one dollar. Goods were exchanged at various parities established through the so-called Equalization Fund. The purpose of the fund was to bridge the difference between domestic, or planned, prices within Yugoslavia and external prices in the foreign market; which in practice, insulated Yugoslav enterprises from real price competition.

After the 1952 reforms, the decentralization of planning and abolition of directorates left foreign trade decisions to enterprises. Foreign trade licenses lost their importance and price liberalization changed the role of prices to become stronger comparative measures of productivity and efficiency. The changes proved more challenging than expected. Yugoslav markets were weak and enterprises could not compete with the foreign sector (Adamović, 1982). A new mechanism was needed to absorb the shocks. The Equalization Fund was replaced with a new import-export coefficient system to bridge the gap between domestic and foreign prices, but amounted to a subsidy and tariff system to reward exports and discourage imports. If the coefficient was greater than 1.00 for this type of transaction, the Yugoslav firm received a subsidy. If the coefficient was below 1.00, it amounted to a tariff. (Adamović, 1982).[3] Despite these adjustment mechanisms, current account imbalances began to show themselves as imports grew faster than exports. Between 1953 and 1960, the balance of payments deficit was around three percent of the gross material product (Estrin, 1991).

Through its transition to self-management, and eventually market socialism, Yugoslavia performed well economically. In 1957, a new five year plan was introduced. The plan of course differed from the 1947 plan in a clear shift from the direct central planning to the "indicative" approach. The plan achieved its targets within four years, a period which was referred to as "the great leap forward." Presented in Table 1 are comparative growth figures between 1951 and 1990 provided by Gardner (1997). Average annual growth in real gross national product (GNP) between 1951 and 1960 was 6.2 percent, outperforming the Soviet Union and OECD averages for the same time period and thereafter until the 1980s.

Although growth was spectacular during the period, there were other indications of instability. Table 2 presents average consumer price inflation. Yugoslavia had higher average

[3] An example of how the coefficient system worked is provided by Adamović (1982). At this time the official exchange rate was 300 dinar per one dollar. If the coefficient was 1.20, an exporter selling goods abroad would receive 360 dinars (300 dinar x 1.20). If the coefficient was below 1.00, say at 0.60, then the exporter would receive 180 dinar.

TABLE 1. ECONOMIC GROWTH IN CENTRAL EURASIA, 1951-1990

	1951-1960	1961-1970	1971-1980	1981-1990
Average annual growth of real GNP/GDP (%)				
Soviet Union	5.7	4.9	2.4	1.2
Bulgaria	6.9	5.8	2.8	1.5
Czechoslovakia	4.8	2.9	2.8	0.9
Hungary	4.5	3.4	2.6	0.1
Poland	4.5	4.2	3.6	-0.4
Romania	6.0	5.2	5.3	-1.8
Yugoslavia	6.2	6.3	5.0	0.1
OECD average	4.2	5.1	3.2	2.8

Source: Gardner (1997), Table 16.1, p. 497.

TABLE 2. CONSUMER PRICE INFLATION IN CENTRAL EURASIA, 1951-1990

	1951-1960	1961-1970	1971-1980	1981-1990
Average annual consumer price inflation				
Soviet Union	n/a	0.9	1.8	4.1
Bulgaria	n/a	3.3	4.9	5.5
Czechoslovakia	n/a	3.1	2.4	2.4
Hungary	4.8	2	5.2	10.7
Poland	6.3	2.5	7.2	70.3
Romania	n/a	n/a	3.3	5.1
Yugoslavia	5.2	11.6	18.7	144.7
OECD average	3.3	3.9	9.1	8.1

Source: Gardner (1997), Table 16.1, p. 497.

inflation from 1951-1960 than the OECD average. Some analysts believed this was in part due to the structure of workers' self-management. Workers tended to prioritize job security and wage levels over profitability, and often chose higher wage levels regardless of changes in productivity (Allcock, 2000). Indicative planning around basic proportions between consumption and investment tamped down this tendency, but it would be let loose after further liberalization of enterprises in 1961. Workers' councils were also biased against expanding the enterprise

workforce as it would mean sharing profits among more workers, and reducing income gains. This tendency would become more prevalent during downturns. Up to this point, unemployment remained below 6 percent in the socialized sector. This is also believed to have been partially due to temporary migration to Western Europe. Prior to 1965, such migration was illegal. Once legalized, outflow migration increased.

Another issue was that of the so called soft-budget constraint. Easy money policy to enterprises incentivized firms to take risks. Although the enterprises were self-managed, they were still publicly owned by Yugoslav society. This resulted in a dynamic were benefits accrued to successful enterprises, but the costs of failure were socialized creating little incentive to adjust investment, production, or employment choices (Flaherty, 1992). While the federal government could impose bankruptcy on inefficient firms, this would just be tantamount to bureaucratic interference and negate the entire project of self-management. This became part of the impetus for the new reforms in 1961.

III. MARKET SOCIALISM

By 1960, the economy was booming as the second five year plan was completed one year early. A new five year plan was prepared. "Yugoslav society felt ready for a new and important step forward" in liberalizing the economy (Hovat, 1976). The impetus for the 1961 reforms were as follows: centralized control of investment had proved ineffective at allocating capital, particularly across republics and underdeveloped regions. Even during the years of central planning, little progress was made in addressing the disparities in economic development and inequality. In addition, the National Bank of Yugoslavia proved to be an ineffective regulator of the money supply. According to Allcock (2000), the governing body was composed of nominees of the principal republican banks, and was unable to distance itself from the structures of political patronage which they in turn represented. Furthermore, credit allocation was constantly be tested by higher wage demand which could not be justified by the growth of enterprise earnings. Next, although the economy was decentralized and already had features of a market economy, the domestic economy needed to be "more open to the influences of the world market" (Hovat, 1976). The foreign trade coefficient system obscured any measures of profitability and efficiency of domestic firms (Adamović, 1982). Lastly, by joining the United Nations and becoming a player on the world stage, Yugoslavia had to conform to the rules of the game.

Three radical reforms were introduced between 1961 and 1963: (1) the coefficient system was replaced with a still complex system of premiums for exports and customs tariffs for imports. Foreign exchange controls also had to be introduced due to a lack of foreign reserves, gold reserves, and high demand for imports necessary for the growing economy (Adamović, 1982). In 1962, Yugoslavia acceded as an associate member to the General Agreement on Tariffs and Trade (GATT) (Horvat, 1976; Allcock, 2000). (2) In an attempt to address the capital allocation problem, the banking system was overhauled and decentralized. In 1961, the state was responsible for sixty percent of the investment financing. By 1964, that had dropped by 36.5

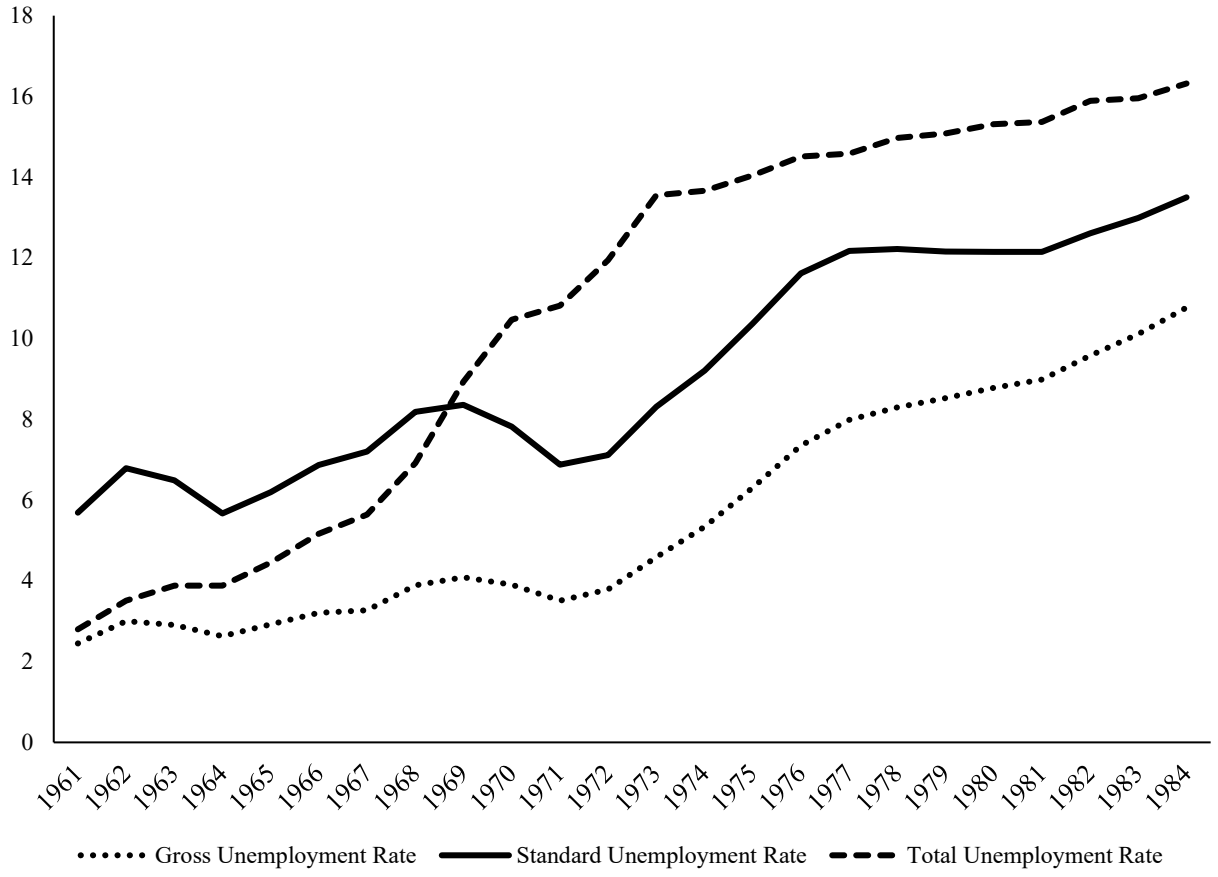
percent and continued to decline their after (Allcock, 2000). In 1963, the major instrument for centralized allocation of investment, the General Investment Fund, was abolished and replaced by the aptly named Fund for Supporting the Development of the Underdeveloped Regions. And (3) centralized supervision of wage levels over enterprises was discontinued, relaxing the system of basic proportions which moderated wage demands.

According to Hovat (1976), the reforms were "poorly prepared, partly inconsistent and badly implemented…As one might have expected, the sensitive market economy reacted violently." The problems foreshadowed in the prior years worsened and the third five year plan was abandoned after just one year. Unemployment rose as the economy went into recession. Figure 1 presents three measures of unemployment between 1961 and 1984. The standard unemployment rate, which specifically reflects unemployment in the socialized sector, i.e. the autonomous publicly owned enterprises, rose to 6.79 percent by 1962. Output fell, but expansionary monetary policy by the national bank helped the economy recover back to its previous growth trend. By 1964, the standard unemployment rate dropped to just below 6 percent.

The government later commissioned a report from a research institute within the country. The report would come to be called the "Yellow Book" report. The report essentially laid the blame at the feet of the government. The instability resulted from the shock of the poorly implemented partial reforms. Removal of the proportional income controls untethered wage increases from productivity resulting in higher inflation than the previous period as shown in Table 2.

Despite the predicament, the Yugoslav economists concluded the solution was further decentralization and market liberalization in service of "perfection of self-management" (Hovat, 1976). Doubling down on its liberalization experiment, Yugoslavia essentially subjecting itself to a second round of 'shock therapy' (named for the experience of socialist economies in the 1990s after the dissolution of the Soviet Union). The objectives of the reforms of 1965 were to reduce the accelerating pace of inflation, eliminate the balance of payments deficit, and further expose the Yugoslav economy to the disciplining competitive forces of the international market (Hovat, 1976; Adamović, 1982). To that end, nearly all manner of subsidies and administrative controls were eliminated to correct price distortions; it was also hoped this would allow "more realistic comparisons" of performance between Yugoslavia and its primary trading partners. Another goal was to achieve convertibility of the national currency. Thus, the purchasing power of the dinar needed to be more consistent between the domestic and foreign economy (Adamović, 1982). As a consequence, incentives for exporters were increased, but higher prices for importers. As a result of these reforms, enterprises were granted even more autonomy; especially with regard to foreign exchange earnings. Enterprises were permitted "free disposal" of their foreign exchange earnings up to 20 percent in accordance with established rules and regulations (Adamović, 1982). In addition, the reforms introduced an interbank foreign exchange market. Both commercial banks and the National Bank of Yugoslavia participated in this market to adjust the

FIGURE 1. UNEMPLOYMENT RATES IN YUGOSLAVIA, 1961-1984

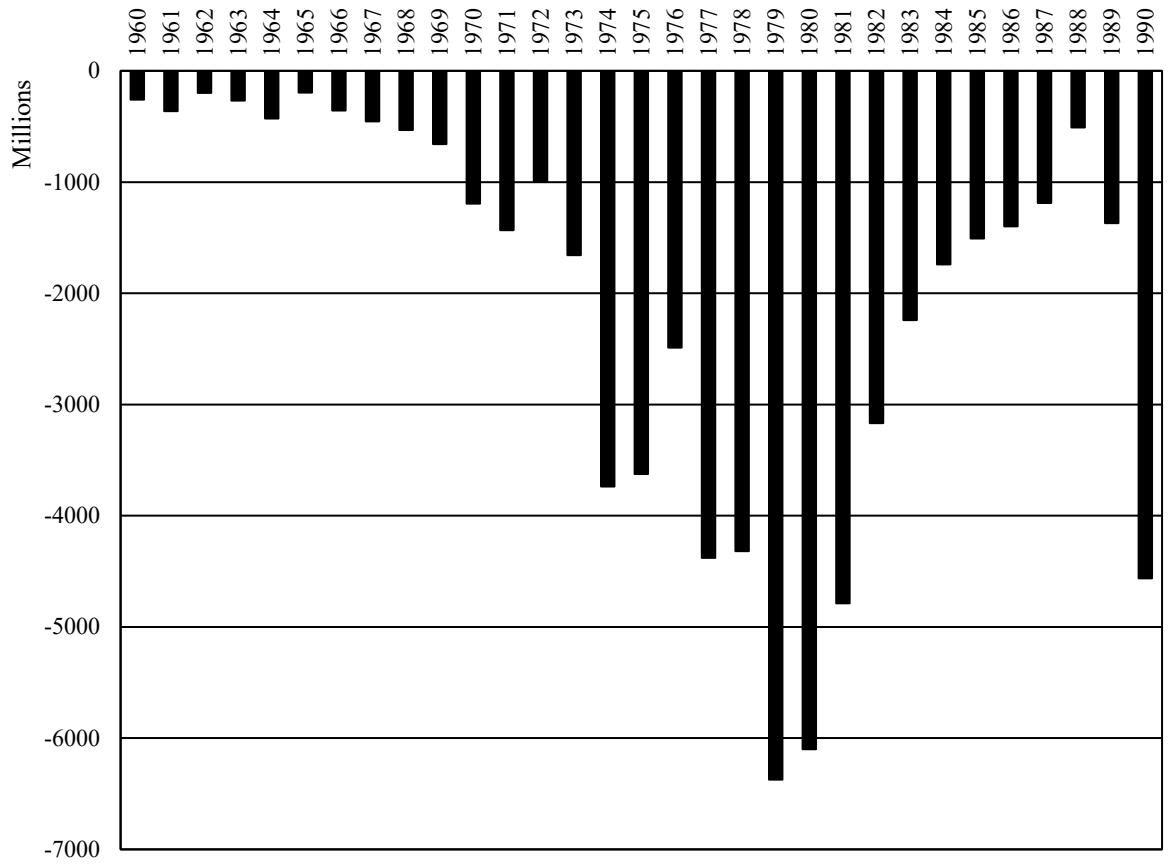


Note: Gross unemployment rate = unemployment/total employment + unemployment.
Standard unemployment rate = unemployment/social sector employment + unemployment.
Total unemployment rate = unemployment + workers abroad/total employment + unemployment + workers abroad.
Source: Primorac and Babic (1989)

economy to changes in market prices and introduce the national currency, the dinar, into the international payments system as a convertible currency.

The additional reforms did not take well and exacerbated the unemployment, inflation, and the balance of payments deficit. The government gave up too much control too fast leaving monetary policy as the only tool to stabilize the economy. According to Hovat (1976), the government engaged in contractionary monetary policy producing deflation, but also causing the domestic unemployment rate to increase. From Figure 1, standard unemployment would continue to rise peaking at 8.36 in 1969. The annual growth rate of industrial output dropped from 12 to -1 percent between 1965 and 1967 (Hovat, 1976). Table 2 indicates average annual consumer price inflation was 11.6 percent through the 1960s, substantially higher relative to the OECD average of 3.9 percent.

FIGURE 2. YUGOSLAVIA TRADE DEFICIT, 1960-1990 (USD)



Note: 1955 is omitted due to lack of data for exports in that year.
Source: data.un.org

The balance of payments deficit would also continue to climb (see Figure 2) as the poor incentive structure between domestic exporters and importers was never addressed. The magnitude of the problem was revealed by extensive borrowing from the International Monetary Fund to address the balance of payments deficit. According to a Washington Post article in 1971, loans from Western sources including the IMF totaled $730 million between 1965 and 1969.[4] International debt would eventually reach $19 billion by 1979 (Estrin, 1991). The poor incentive structure was also due in part to the political commitment of President Tito going back to 1961. In an effort to stake out neutral ground between the two superpowers, President Tito along with leaders from India, Indonesia, Egypt and Ghana founded what would become the Non-Aligned Movement. This new stance enshrined the doctrine non-discrimination of trade between countries, which included countries with non-convertible currencies. All rules and procedures had to be applied equally in trading with convertible currency areas that is currencies exchanged in the global foreign exchange market without government limitations, as well as in trading with

[4] See article by Morgan, D. (Sept. 18, 1971). "Yugoslavia to Get Aid from Western Nations." Washington Post. Retrieved from https://www.washingtonpost.com/wp-srv/inatl/longterm/flash/sept/yugo71.htm

countries with currency clearing countries, and partial or non-convertible currencies. Partial-convertible countries impose trade restrictions and foreign exchange controls, whereas non-convertible currencies cannot be traded at all in the international foreign exchange market. The issue was that lower prices from convertible currency countries were more attractive to importers, but higher prices from partial and non-convertible currency countries were more attractive to exporters. This tended to result in a large current account deficits growing with Western Europe and surpluses growing with Eastern Europe, and Yugoslavia trade authorities unable to pay for imports with export earnings resulting in persistent balance of payments deficit.

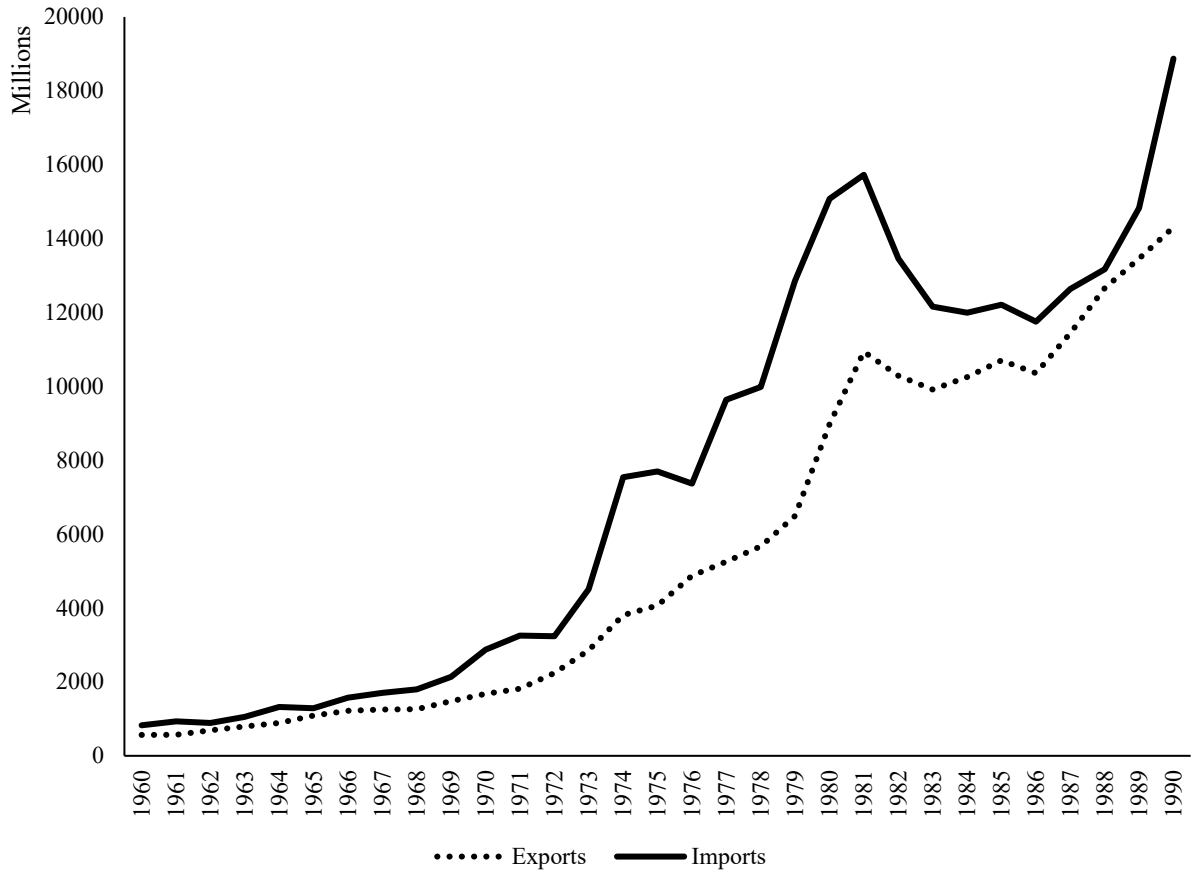
Despite these setbacks, it should be noted average growth in the economy was 6.3 percent between 1961 and 1970. Yugoslavia was on the upswing and on the path to manage its balance of payments deficits. Troubles did not brew again until the 1970s oil shocks beginning in 1973, which had a detrimental effect on the economy. Estrin points out, as developing country, Yugoslavia had the "worst of both worlds" when it comes to the effects of an oil shock: (1) Yugoslavia domestic production of oil covered less than 20 percent of its consumption and so had to rely heavily on oil imports which contributed to a substantially outflow of foreign exchange earnings. And (2) Yugoslavia could not respond to higher oil prices by increasing prices of capital equipment, technology, and knowledge as the industrialized countries were able to do; which meant it was paying higher prices for imports of the same.

As Adamović (1982) rightly notes: "The Yugoslav experience has shown that basic trends in the world economy, and in world trade in particular, affect every single country in the world, regardless of its socioeconomic system." By giving up as much control as it did, there was little the government could do to address the problems it faced. According to Estrin (1991), "The Communists felt that markets were taking the economy in a direction they did not want to go, with sharp trade cycles, high unemployment and pay inequality. It was also argued that self-management was ineffective because managers were usurping decision-making authority." Thus a new shift would occur, this time from "markets towards bureaucracy and bargaining as the primary mode of resource allocation between 1974 and the mid-1980s" (Estrin, 1991).

IV. THE BOAL REFORM AND COLLAPSE OF YUGOSLAVIA

The reforms of 1974 had two primary objectives: (1) to provide more inclusive "political direction" in the development process of Yugoslavia, which meant further democratization in the political sphere and the ratification of a new constitution. And (2) to strengthen the self-management system. This was accomplished by grouping workers into constituent organizations of associated labor, or BOALs for Basic Organization of Associated Labor, and given their own place in the public sphere to contribute to decision making. To coordinate economic activity and resource allocation, consultative committees were introduced by industry and region were used to reach contractual agreements on pay, investment shares and development plans; which had to meet the satisfaction of the workers' councils within the BOALs. Another form of agreements were social compacts with republican and local political authorities. However, these "agreements often proved to be incoherent in the sense that aggregate targets were not consistent with the sum of the individual targets. The main effect of this new institutional framework was to replace

FIGURE 3. EXPORTS AND IMPORTS IN YUGOSLAVIA, 1960-1990 (USD)



Source: data.un.org

often proved to be incoherent in the sense that aggregate targets were not consistent with the sum of the individual targets. The main effect of this new institutional framework was to replace competition with collusion throughout the system" (Estrin, 1992). Policy-making power was devolved to the republics and central economic action was only possible through their consensus.

In the wake of the second oil shock occurred in 1979, a consensus could not be reached on an effective policy response (Estrin, 1992). Growth effectively stopped after 1979 when it became difficult to borrow. Economy was never able to restructure toward a viable growth strategy. Figure 3 presents export and import level data between 1960 and 1990. During the 1960s, Yugoslavia imports exceeded exports, but moved together as the economy grew. After the 1970s, imports accelerate diverging from export growth. Yugoslavia was heavily dependent on imports of capital goods for production. The oil shocks contributed to significant cost-push inflation during the 1970s (see Table 2). During the 1980s, exports stagnated. The economy began to experience episodes of hyperinflation. Average annual consumer inflation was 144.7 percent between 1981 and 1990.

Between 1988 and 1991, Yugoslavia continued to introduce additional market reforms until they had, in practice if not in rhetoric, abandoned their unique system; becoming more and more like a Western-type capitalist economy. Inequality and development disparities festered as ethnic tensions and nationalist sentiments began to percolate. In anticipation of a post-Tito presidency, which ended with his death in 1980, the 1974 constitutional reforms included a rotational occupancy of the federal presidency by the republican presidents from each of the seven states which made up Yugoslavia. Ethnic tensions were especially high between Serbia and Croatia. When it was the leader of Croatia's turn to assume the federal presidency, Serbia blocked them sparking a constitutional crisis. One month later, Croatia declared independence, and others soon followed.

V. CONCLUSION

According to Roemer (1994), researchers Ben-Ner and Neuberger in 1990 characterized Yugoslavia as "having gone through six economic systems since 1947." One might be inclined to think this statement tongue-in-cheek, however, it is not far off base. From 1947-1949 the economy was centrally planned economy. This economy was fundamentally socialist in character, but would best be described as state socialism as was the Soviet Union. One could quibble with the characterization given the dominant political control of communist parties and authoritarian rulers. Democracy has always been an essential tenet of socialism, a feature absent in nearly all self-described socialist states. Yugoslavia was no exception under the authoritarian leadership of Tito. However, economic democracy was present in both the consumer market and the production process.

The system of Yugoslavia from 1950-1960 is difficult to characterize. Workers' self-management had been introduced which provided some real autonomy to firms over the pay structures, hiring practices, etc. but the state retained both legal ownership of the enterprises and administrative control on the economy around foreign trade, investment, and most prices. This period could still be thought of as state socialism as the state maintained legal ownership of the means of production, but workers decided what to do with it. Notably, these two periods were the golden years of growth and stability. 1961-1973 mark the period of market socialism. During this period of market socialism, enterprises gained nearly complete autonomy over the means of production. However, the 1961 reforms also exposed the domestic economy to the harsh competition of the international market which it was ill equipped to handle. The economy struggled with rising unemployment and inflation. Problems began to compound after the decentralization of investment in 1963, which further tied the hands of the state leaving the only real economic lever of monetary policy. Conditions improved slowly toward the end of the 1960s, but the oil shocks of the 1970s deal a blow the economy is never able to recover from. The BOAL period introduced more democracy, but also more bureaucracy. While coordination grew more difficult, spiraling into other issues beyond economic. The legal nature of ownership

of the means of production is unclear from the literature in this period as economic and political power was shifted substantially to the republics.

In this author's view, the additional market reforms Yugoslavia went under during the 1960s were ill suited for its predicament. As an underdeveloped country with no natural resource monopolies and a tiny market, an open economy approach was inappropriate as Yugoslavia was never really able to structure itself toward export-led growth given its heavy dependence on imports of industrial capital. The alternative was an investment strategy which was more or less pursued prior to the market reforms when investment was centrally controlled. The era of indicative planning through proportional controls seems to have worked well during the 1950s particularly for the social ownership structure of enterprises. It is difficult to say how this arrangement would have held up during the 1970s oil crisis period, but the government would have had more tools such fiscal and investment policy to recalibrate economy as needed.

In an ideal market socialist structure would include strong institutions to allocate investment, regulate the market and curtail its excesses. The market socialist structure could only conceivable work well for more advanced economies with such strong institutions in place; even then, one would expect an interventionary role for the state to smooth out business cycles. For smaller developing countries, a powerful state government with some significant degree of centralized planning has proven to be effective in many cases (e.g. South Korea, Japan, Taiwan, etc.). Ideally, such a powerful government would be checked by a democratic political system.

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