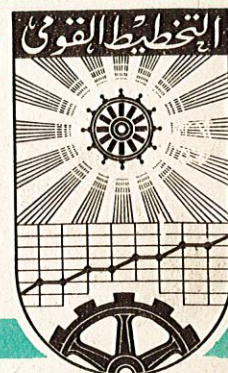


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INVESTMENT POLICIES AND THE SOCIO/
ECONOMIC ORGANIZATION OF YUGOSLAVIA
DURING THE PERIOD (1945 - 1965)

By

MAHMOUD OMAR

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"Opinions Expressed and Positions Taken by
Authors are Entirely their Own and do not Necessa-
rily Reflect the Views of the Institute of National
Planning".

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ORGANIZATION OF YUGOSLAVIA DURING THE PERIOD (1945-65)

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of the requirements for the Degree of Master in
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by

MAHMOUD OMAR
(U.A.R.)

Under the supervision of
Prof. L.J. ZIMMERMAN

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Institute of Social Studies
The Hague

C O N T E N T S

Chapter I -	The New Economic System of Yugoslavia after 1946	1
II -	Investment as the Backbone of the Economic Development and the Responsibility for the Allocation of Investment Resources	4
	- Factors dictating the high rates of investments	4
	- Investments Policy and the responsibility for the allocation of investment resources	5
	- The workers councils	6
	- The Government's liberal policy between 1950-1958	7
	a- Price system and price disparities	7
	b- Allocation of foreign exchange earnings	10
	c- Other instruments	11
	- The State's backsliding toward administrative methods	12
III -	The Yugoslav socio-economic organization and the pattern of Investment Allocation during the period 1950-1965	15
	- Some economic factors regulating the allocation of investment resources	16
	- Other social factors playing a role in the process of social reproduction	18
	- The economic structure of investments between 1945-1964	20
	- Expected trends for future investment policy	25
	- The economic position of working organization	25
IV -	Conclusion and Final Remarks	28

CHAPTER I

THE NEW ECONOMIC SYSTEM OF YUGOSLAVIA AFTER 1946

In a review of the new economic system which emerged in Yugoslavia after the outbreak of the Second World War a starting point are the two following remarks. First, that the Yugoslav economy before and until World War II was predominantly agrarian, with a backward and rigid economic structure which put Yugoslavia, then, among the underdeveloped nations of the world. Second, that the Second World War left Yugoslavia, as it had been in the case in other allied nations, face to face with a heavy burden which represented a great obstacle for the post-war policy of development to start with.

However, it is since the end of the war that Yugoslavia started to exert special efforts to put the economy into operating condition, to change its rigid structure and eliminate its backwardness as well as to create and ensure an autonomous and self-generating power to achieve a rapid expansion of the Yugoslav economy.

At the end of 1946, the Government nationalized industrial mining and quarrying enterprises, almost all wholesale trading concerns and all banks and transport companies. By the end of 1948, remaining industrial small enterprises and retailing trade were also nationalized. However, the two years, 1945 and 1946, are considered to be the repairing years of the severe war damage and the reconstruction of some most important industries being terminated during the two years.

The new socio-economic system of Yugoslavia after 1946 reserves its own characteristic features. The main principle of the system is that economic planning has become the basic method for guiding the economic development of socialist Yugoslavia. The main objective being the achievement of an optimum rate of economic growth accompanied by a proportionate increase in the material, cultural and other welfare of the people.

The characteristic features of the new economic system have been closely related to the whole socio-economic set-up which has emerged, since 1946,

in the course of building the socialist system in the country. Two points concerning the socio-economic sett-up, relevant to the new system, developed in Yugoslavia, may be briefly mentioned here in the effort to give, a rather concrete picture of the system of social planning in Yugoslavia:

- a. the means of production of all sectors of economic life, except a part of agriculture and handicraft are socially owned;
- b. an important feature of social ownership is the workers self-management of the enterprises, which, inter alia, enables the individual economic units to pursue a production policy on their own, according to the market condition but within a definite framework set-up in the plans of economic development on federal and republican levels.

An enlarged institutional framework is necessary for the understanding of the principal conception of this economic system. Such institutional framework may include the degree of independence of the working organizations, the limits of the planning function of the state, the basic economic relationships in planning, planning in the working organizations, communes and republics, economic planning at regional levels and other related matters.

In the course of time, during the period 1947-65, and with all the means of production being social property, the economy became complex and, in practice, the economic relationships necessitated the establishment of various forms of institutions and the use of different organizational methods and institutional instruments. In principle, the state has also been searching for various elements to initiate personal motives and be stimulate the output wherever possible. To that end, economic incentives were introduced, administrative management of the economy has always been subject to modification, improvement and change. However, this period has therefore been a period of experimentation which has led to the establishment of the said complex economic system. Thus, if one solution did not work it was re-examined and if necessary replaced by another, depending on the nature of economic stage and the targets set for it.

The orientation of the economy from central direction and control to workers' management shows that the Yugoslav experience in socio-economic administration of planning is a unique social laboratory in which various socio-economic hypotheses are being tested as a matter of daily practice. Meanwhile, the problems of the system of socio-economic planning are presented and analysed on the basis of the results of the work and experience of several years.

A review of the system shows that there are several elements which constitute its unique conception as it is being built in theory, applied in practice and directing the economic life through economic policies. The two outstanding elements which determine the socio-economic institutional framework of the system are the self-management of workers and the market relationships regulating economic activities.

This new economic system constitutes logical phases of evolution since 1950, coinciding with the introduction of workers' self-management in enterprises, up to our days, when the new measures forming part of the economic reform of 1965, brought a new affirmation of the system of self-management and the decision-making power of individual units of production in the field of enlarged reproduction (net investments). However, the adoption of the system, its implementation, the way it regulates the basic economic relationships in planning, the role of the federal state in planning and other related matters will be discussed in the following chapters, in so far as they affect the investment policies of the period under consideration.

CHAPTER II

INVESTMENT AS THE BACKBONE OF THE ECONOMIC DEVELOPMENT AND THE RESPONSIBILITY FOR THE ALLOCATION OF INVESTMENT RESOURCES

Factors dictating the high rates of investments

The post-war years revealed that Yugoslavia has come to be one of the outstanding examples in the world in so far as the degree of intensity of investment activity is concerned.¹⁾ The share of investments in the distribution of the social product was approximately 30% in 1954 and rising to about 40% in succeeding years. In the post-war Yugoslavia, investments represented the most important factor of development but it was not understood to be its exclusive condition. However, there have been a number of factors which dictated this high rate of investments.

First, while necessitated by current demands for the erection of economic-social-standard and public utility projects, the high rate of investment in Yugoslavia has also been dictated by the need to establish and develop certain projects including infra-structure, which affects, though indirectly, the promotion of the economy, individual income and consumption, and in general the standard of living. Owing to the inherited backwardness of the country the need arised in the post-war years to allocate a considerable amount of investments to infra-structure projects. The problem of promoting infra-structure projects being common to all countries in process of development and outlay on such projects being far more burdensome to their

1) Taking the ratio between the net investment and the national income as the basis the National Institute for Statistics and Economic Studies in Paris in the publication "Quelques aspects fondamentaux de l'économie mondiale" classifies all countries in four groups to determine the extent of their investment as follows:

1. over 15% high intensity investment; 2. from 10-15% intensive investment; 3. from 5-10% minor or weak investment; and 4. under 5% weak investment or none.

economy than it would be to that of highly developed countries, represented one of the main problems in the post-war development process. The country was compelled to invest more in fra-structure projects in the initial stages of development, even though they benefitted production indirectly, but still to keep them within the bounds of the country's capacities. In other words, to spread such projects over a considerable time so as to release the bulk of the available resources for investment projects that mature fairly rapidly and are capable of bringing correspondingly early returns.

Second, the high rates of investment increase were also dictated by the need to raise production. Accordingly, investment for exploiting natural resources have risen annually per unit of capacity. The sequence of exploitation of natural resources in Yugoslavia shows, as will be pointed out later, that the exploitation of such projects (water power, ores and minerals, forestry etc.) was carried out in such a way to ensure that their maturing should follow a sequence that would enable exploitation under the best natural conditions with the least possible cost per unit of production and the biggest possible returns.

Third, the economic policy after the Second World War was concerned, mainly, in creating a solid material base for a further growing industry and economy as a whole, meanwhile, in contributing to the necessary changes required in the economic structure.

Given these socio-economic relationships the Yugoslav planners started, within this given framework, to find out the appropriate economic policy to improve the above mentioned complex of economic relationships and to determine the role of the various bodies, on the different levels, responsible for the allocation of investment resources.

Investment policy and the responsibility for the allocation of investment resources

The high rates of investments implied that funds for investment have to be mobilized and operated in such a way to achieve an even balance between the different regions and sectors of the economy and finally to create a solid material base for economic growth. That meant, that the over-all

investment policy and the decision-making power for allocating investment resources have to be co-ordinated. By whom or by what agency were the decisions of producers regarding output, investment and consumption to be made and co-ordinated now that the state had resolved to do away with the bureaucratic supervision of the economy?

The workers' council

The creation of the workers' council in 1950, is considered to be the most publicized reform of that year. For a better understanding of the principal conception of the economic system in Yugoslavia, which is based on the self-management of the working people, a study of the role of the workers' council, in the investment allocation process seems necessary.

These councils, whose members are elected from among the entire staff, have been charged with the analysis and approval of production and financial plans and with the general supervision of the enterprise's activities. The day-to-day business of the workers is carried by a "management board" representing the workers' council. The director of the enterprise is responsible for all the operational decisions, but his policies are subject to review by the management board.

A thorough analysis to the idea behind these shifts shows that they reflect:

first, delegation of responsibility for detailed planning to local authorities, communes and enterprises;

second, that they meant vesting operational controls in the small productive administration units and at the same time to strengthen "over-all" planning.

However, it took at least until the middle of 1952 before the old contractual and routine ties that had been knit between socialized firms under the defunct planning system had been loosened sufficiently to allow the new system to operate.

This new system created the need for an over-all co-ordination of economic policy in order to optimize economic performance without jeopardizing the goal of socialization. The new policy of co-ordination has been based on various liberalizing measures which were introduced by the

state to ensure the development of the national economy as a whole and regulates the basic distribution of national income of the Federal People's Republic as a whole. Thus, planning of investments in the working organizations, associations of working organizations, communes, republics and on the federal level, is aimed for the purpose of achieving a fuller utilization of resources. In this chapter a brief illustration will be given to describe the role of the state in regulating and co-ordinating economic activity on the national level, while the economic position of the working organizations will be dealt with later on.

The Government's liberal policy between 1950-58

To ensure some degree of co-ordination and directing of economic activities of the independent producers, the state, through the federal plan, set up the basic proportion of production and distribution as well as determined the direction of development of the productive forces and regulated the basic distribution of national income among the consumption fund of working people, capital formation and other general requirements of the social community. Among the liberalizing measures introduced by the state after 1952, to ensure the over-all co-ordination of economic activities, are the following:

a. Price system and price disparities ^{*)}

Among the basic means and economic measures subject to planning by the state since 1952 a special attention has been devoted precisely to the price system and price relations. The main reasons being, first that through a certain degree of price stability, it will be possible to pursue long-term development policies and that these policies be incorporated into the price system. Second, to create such a price relation which correspond to a desirable balanced economy, in which the balance between supply and demand exists. Third, to use prices

*) Price disparities, in this respect, refer to a situation where price system and price relations existing do not correspond to a desirable balanced economy, in which the balance between supply and demand exists.

and price relations, among other measures, in determining the conditions of sale of the produced commodities, and in turn, in determining the ~~primary~~ primary distribution of social resources among the various working organizations and the various activities.

To that end, new economic prices were worked out for raw materials and semi-fabricated goods. These prices were roughly on a level with the free prices of non-rationed consumer goods, which far exceeded the former prices of administratively rationed producer goods, while imported materials were priced according to a higher more realistic exchange rate. It has been since January 1952, that all producers, wholesalers and retailers of manufactured goods have been invited to set prices for their products on the basis of market demand and costs, in line with the recently established level of material prices.

However, it would be wrong to have any illusion about a free market since such a market exists in no country in the world, and it can not exist especially in a socialist country. Direct as well as indirect price regulations represent an integral part of the Yugoslav economic policy which differs from the economic policy to other countries. This difference does not depend exclusively on the difference in economic system but on the course and degree of intensity exercised by the state to regulate economic system itself. While in Western countries state intervention in the field of prices starts from market criteria, and it is, just because of that, limited to the minimum considered as necessary in the given conditions the situation in Yugoslavia is entirely different. In the Yugoslav economy, the post-war starting point was almost exclusive central administrative system, introduced immediately after the war, and gradually changing in the direction of a system of freer operations of the market mechanism. Thus, while the western system leads to a gradual introduction of the market mechanism through the application of the market criteria, which almost did not exist. However, the operation of the market mechanism in the Yugoslav economy, is still rather limited, price regulations are broadly applied on all the sectors of consumption. They are especially sizable on the sector

of the so-called productive consumption (intermediate products) as well as on the sector of personal consumption. The prices of all the more important intermediate products are fixed and, therefore, not adjusted to real supply-demand relations. The same can be said about the prices of consumer goods and services. Fixed wages and salaries, which existed until recently, limited the operation of the market mechanism to far greater extent than could be seen on the basis of the size of price regulations. The fixation of wages and salaries affected indirectly all prices of goods and services adding to the different factors causing price disparities on the domestic market.

The unequal share of various sectors and branches of the economy in the creation of the total amount of accumulation is also a very important factor influencing disparities of prices. These disproportionalities affect the market and influence its operations in a sense that some goods are overestimated while other goods are underestimated as a consequence of different obligations to accumulate. If these differences are not economically justifiable, being the outcome of some administrative measures, then non-equivalent exchange is carried out; actually, higher value underlying low price while lower value underlying high price, leading to a disproportionate allocation of economic resources. It is also necessary to stress here that the existing profitability of various sectors and branches of the economy is one of the reasons for the price disparities, meanwhile, it is a consequence of the given structure of the economy. Therefore, the unfavourable structure of production is likely the most important reason for price disparities on the domestic market.

However, it is difficult to say to what extent both the administrative distribution and redistribution of income on the one hand, and the economic structure on the other hand, affect these disparities, what seems more important to say is: that a rather sizable administrative distribution and redistribution of income does not allow one to see clearly enough all these economic relations. Assuming that the administrative allocation of resources has been removed, which is quite an unrealistic

assumption, one can say that whatever may be left of price disparities will be a consequence of an unfavourable structure of production and no longer of various administrative measures for price regulating. It must be pointed out that mere existing disparities of prices, being partly a consequence of unnecessary administrative regulations, make it impossible to get a complete insight into the inadequacy of the economic structure. After the abolition of such kind of the administrative regulations one could get a complete insight into the disproportions in the economy which would manifest themselves just as new disparities of prices. These new price disparities could then be abolished merely by directing investment, in principle, in those sectors of production or the economy as a whole in which the prices would remain relatively higher as will be discussed in studying the trends and structure of investment during the period 1947-64.

b. Allocation of foreign exchange earnings

The second instrument used by the state in allocating investment resources in accordance with the investment policy was the allocation of the amounts of foreign currency, necessary for the construction of various projects, to the different sectors of the economy.

Foreign currency assets intended for investment projects were managed exclusively by specialized central banks, and a majority of the investors were required to make a special documented application for permission to buy foreign currency. The procuring and sale of the foreign currency necessary for different economic activities has constituted the strongest instrument for orienting the available dinar resources towards the projects designated by the investment policy. The assets deriving from foreign loans were similarly managed by the banks, acting either as direct beneficiaries or as guarantors. However, during the period 1947-58 the Government policy concerning allocating foreign exchange resources had undergone substantial change. The state, acting as an over-all organ of the economy, sometimes allowed exporters to retain substantial part of their foreign exchange earnings from which they could draw for their own import needs or which they could sell on a government-sponsored

exchange market at a higher than official rates while sometimes funnelling all foreign exchange earnings through central organs, depending first, on the availability of foreign credits and outright grants from foreign countries, mainly the U.S.A., the U.K. and France and second, on the economic situation of the different stages of the period 1947-58.

c. Other instruments

Other important steps were taken by the state which affected not only the rate of growth but also the course of the economic and social development of the different stages. Such measures included the elimination of some of the consumers' goods rationing, the removal of the unnecessary bureaucratic control over enterprises, stressing the job still to be done in giving these enterprises more autonomy from arbitrary taxation and in contriving more flexible foreign trade regulations.

Such liberalizing measures, introduced after 1952, allowed the producers and distributors to work on the basis of market conditions and to look for ways of improving their profits by supplying items in demand and by substituting cheaper materials in their production process. This financial decentralization would have been desirable if there had been a favourable structure of production by the time these liberalizing measures were introduced. Consequently, this decentralization tendency reduced the state's power to steer the economy along the course mapped out in its long-term plans. Investment projects sprouted in all parts of the country which had no place in the planners' time-table, but added their bit to the pressure of inflation.

There has been also a more subtle disadvantage to letting communes and districts do their own capital budgeting. Local organs, pressed for revenue, taxed the output of industrial producers and encouraged them to raise their prices. This was one of the main arguments brought forward by Yugoslav economists early in 1958 in favour of widening the scope of price controls, mainly because of the inflationary problem which had been aggravated during 1959.

The state's backsliding toward administrative methods

The inflationary problem of 1957-58 and the Government's attempts to find a way out of it took the form of various executive decisions which reinstated the physical controls and administrative encroachments (even the liberal measures taken between 1950 and 1958).

In February 1958, a Government's executive decision was taken, whereby industrial producers and wholesalers in socialized sector of the economy were asked to justify price increases for most products to a Price Office. In practice, this meant that the office had veto power over price increases. This potential veto acted to inhibit the price policy of potential "spectators" as well as of enterprises with cogent reasons for adjusting their prices to new market conditions. Apart from the Price Office, the State Ministry in charge of trade has been made responsible, in 1958, for the overall supervision of price controls, while local people's councils have been given far-reaching prerogatives in controlling prices of both socialized firms and private handicrafts.

Throughout this stage, exporters were compelled to yield up to the state all but about 2 percent of their foreign exchange earnings, administrative criteria - including judgments of social priority - again began to shape credit policy and finally the Yugoslav market has been insulated from world prices by means of a multitude of exchange rates, so that even prices of goods not subject to direct controls have tended to be out of line with their relative scarcities.

This tampering with the price system, foreign exchange regulations, credit policy and the economic policy as a whole made for still more administrative controls over the market mechanism. Prices no more reflected the state of market demand, they ceased to be valid for making investment decisions or for allocating other resources. They could no longer give an expression to consumers' desires, so that the planners stepped in with more physical controls to block the market forces which artificial prices have brought into play.

Furthermore, I can say that the Yugoslav economic policy between 1952 and 1964 reflected a sort of mixed system with administrative decentralization on the one hand and reduced co-ordination of physical plans at the top level and no flexible price system to take its place.

A lesson may be drawn from the Yugoslav experience with its various institutional reforms through the different stages of economic development in the post-war period. At the end of the Second War Yugoslavia faced various difficulties which represented an obstacle for a policy of an accelerated economic development. It was therefore necessary to exert special efforts in order to put the Yugoslav economy into operating conditions, to eliminate its backwardness and to ensure a continuous and rapid expansion. Thus, the period 1947-51 represented the first phase in the evolution of the Yugoslav economic system; namely the period of administrative management of the economy.

In 1950, a move toward decentralization was made in the socialized sector, and it soon became evident that more drastic measures to free the economy from the administrative control have to be taken to correct the uneven distribution of national income and to keep markets in balance. The most outstanding reform of this year was the introduction of the self-government system to do away with the bureaucratic supervision of the economy.

However, government-decreed decentralization was not a natural order, toward which all artificial deviations tended to revert. Its delicate balance was perpetually undermined by bureaucratic interference and it seemed to slip back the economic policy toward the opposite pole of hyper-centralized authority. This has been the situation between 1952 and 1958.

The period 1958-63 reflected the third phase of economic development in the Yugoslav experience. A number of problems, the inflationary problem being the most pressing among them, facing the economy at that stage reinstated an intensive central control over the economy. The reason for this retreat, according to one commentator, was that all attempts to curb price increases had failed and no other course availed but to resort to administrative measures. However, there are many reasons which prove that this backsliding toward administrative methods represented no more than a rosy solution to the problems of this stage.

First, the inflation of 1957-58 has been only moderate, it had almost exclusively affected the prices of foodstuffs while the prices of most producer goods, which were not subject to control, have shown only small increases. Second, that inflationary forces in 1958 was not stronger than in 1952, when the country faced starvation and the burden of war production and investments was crushing the population. Thus, while financial decentralization reduced the state's power to steer the economy, the backsliding of 1958 represented a retreat from the reforms hammered out in the period 1952-58. Third, the increasingly overt use of monopoly power by producers' goods industries also helped to call forth the Government's repressive measures, but still one might argue that the authorities would have been better advised to break up the monopolies than to obliterate the symptoms of their power.

However, the relative importance of using the one institutional form or the other depended on the different emphasis and policy targets set for the different economic stages as well as on the experience gained in former years. It is a fact that a sound basis has been created in Yugoslav economy, but it is also true that the rapid economic development in the post-war years has caused a disproportion in relations between different economic sectors and branches as well as between the different geographical areas. Whereas industry has considerably advanced, agricultural production stands on an average at the pre-war level. Besides this, the development of the consumer-goods industry has been behind the production of material for reproduction, especially behind the production of means of labour. Under these conditions of turbulent economic development the demand and consumption of consumer goods and food grew considerably. But owing to the inadequate increase in production and the shortage of stock-piles in raw materials and finished goods, consumer demands could not always be satisfied. This has been the main reason for vacillation of prices and market instability as well as for the disparities in the distribution of national income.

CHAPTER III
THE YUGOSLAV SOCIO-ECONOMIC ORGANIZATION AND THE PATTERN
OF INVESTMENT ALLOCATION DURING THE PERIOD 1950-65

The socio-economic organization of Yugoslavia, although not yet finally formulated, constitutes logical phases in the evolution of the Yugoslav economic system since 1950. The starting point of this socio-economic organization has been the introduction of workers' self-management in enterprises, while the affirmation of the system has always been, even up to our days, the main concern of the state. Over the last fifteen years a series of modifications have been introduced towards that end. The most decisive among them were the series of modifications in the system of income distribution, the system of self-government and in the field of enlarged reproduction. The shift from the decentralized system of economic administration of investment resources to the system of de-etatisation of the process of decision-making power in investment matters represents a transfer of the management power on investments from the state organs to the working organizations which increasingly transform themselves into self-planning and self-organizing of workers in working organizations and social-political communities.

Under this system of self-management of workers, the working organizations have become relatively independent producers of commodities. Meanwhile, the system also involves some degree of co-ordination and directing of activities of independent producers of goods for market needs. In the effort to analyse the economic, social and political framework of the new system of social planning, in so far as it determines the investment policy and the socio-economic policy in general, some of the factors which direct the system and determine the economic policy of social reproduction will be the subject of this chapter. Among these factors are:

1. economic factors regulating the allocation of investment resources;
2. other social factors playing a role in the process of social reproductions;
3. the position of working organizations. Under the Yugoslav system of self-management of workers, working organizations mean the independent producers of commodities.

1. Some economic factors regulating the allocation of investment resources

Under the Yugoslav system of self-government and so-called market economy, in the part where economic policy objectives are formulated different economic measures and conditions are established which are likely to induce the organs vested with decision power to put in practice the planning conceptions and the proportions set in the plans of higher instance, meanwhile, not sacrificing their own interests. In this way, a part from fixing the main objectives, these conditions of economic activities, which are determined by law and other regulations, become the main instrument of planning. These laws and regulations are enacted by the social-political communities, within the limits of their legal power, in order to further the implementation of their plans, and they are, from a formal and legal viewpoint, binding for the more narrow social-political communities, for the working organizations and, by large, for all citizens.

These legal provisions and various measures regulate the various elements of the economic system, such as prices and price relations, conditions of trade with foreign countries, taxes and similar duties monetary and credit transactions, flows of enlarged reproduction and other elements of the system. Under such conditions, the real task of the legal provisions and measures controlling the economic factor which regulate the allocation of investment resources is to determine two categories of relationships. The first category includes co-ordination of material proportions of development in all the sectors of the economy and other activities at all the levels, while the second category involves co-ordination of the general conditions of economic activities during a determined period of time, the abolition of instruments, viz. modification of old, and the introduction of new ones of the economic system that are necessary to achieve the best allocation of resources and promote the implementation of planned targets.

Such concept of planning system requires that one should start from the economic system, i.e. accepting the existing economic instruments which, taken as a whole, create the economic system, as already given. It also requires that the planners should form an anticipated picture of what would have happened if the economic system had remained unchanged. If the existing

economic system, without any modification, yields satisfactory results from the point of view of the interests of the community (well co-ordinated and sufficiently efficient development) in the given period of time, planning, in the right meaning of the word, is not necessary because forecasts concerning the future developments would be sufficient. In fact, planning means a challenging and co-ordinating of the development and therefore changing of that direction of development would result from the acting economic system. For that reason planning also means changing of the already existing economic instruments and the introduction of new ones, and thus changing of the existing economic system.

If one starts from the assumption that one of the basic functions of planning resides in co-ordinating economic development and in imparting a desired direction to it, it is possible then, to obtain the basic relationships which may be, and in fact, are an object of planning. This is, first of all, the accumulation rate or to be more concrete, the basic pattern of distribution of national income into consumption and capital formation, and then, into personal and collective consumption and enlarged reproduction. This is the most global, but at the same time the most important economic relationship, largely determining the rate of economic growth. In its essence, this pattern of distribution ^{is predetermined by the degree of development of} productive forces, so that the possibilities of planning in the sense of a deviation from an objectively determined relationship, are rather limited. This particularly happens to be true under conditions of self-government, when the working organizations dispose in a quite independent way of their income (after having fulfilled their obligations towards the community) in working out their distribution schemes fixing what part of income will be used for personal incomes, and what other part of income will be used for personal incomes, and what other part of income for their funds, and when they have the ~~power to~~ decide themselves on the use of greater part of investment resources designed for enlarged reproduction. In view of that, it can be said that planning is more or less reduced to mere previsions of relationships which are going to be established, in a given setting, by the decisions of the working organizations, exerting their self-government rights.

Another important factor which determines not only the tempo but also the course of economic and social development, is the basic structure of investment, distribution of the investment resources for enlarged reproduction (capital) on various economic and non-economic activities. The aim is, in fact, to ensure both the very structure of investment giving the best results in increasing national income and standard of living and the most favourable ratio between investment and the value of the social product (capital-output ratio). What seems also of particular importance in this connection is the necessity to secure the most adequate way of integrating the economy into the international pattern of division of labours because only in doing so it will be possible to draw some benefit from the competitive advantages of the national economy.

2. Other social factors playing a role in the process of social reproduction

In planning a scheme of enlarged reproduction, first of all, it will be necessary to make a division among the resources designed for enlarged reproduction, in foreseeing one part of resources to the development of economic activities and the other part for the development of non-economic activities. Although one may say that this pattern of division may be largely determined by the relationships prevailing under the system of self-government, still, the community, after all, may exert more influence on this pattern than on the capital formation rate because one part of non-economic activities is financed through contributions, whose amounts are fixed by the community, or out of the funds and budgets of the social-political and other communities i.e., by the Federation itself. In planning such a scheme, it is possible to depart from the material and other conditions and tendencies which have already come before at a previous stage.

However, in viewing the methods to promote the general conditions for work and life of the citizens and the underdeveloped territories of Yugoslavia several phases can be distinguished between 1950 and 1965. The development of certain areas of social life, such as health services, cultural life, education etc., has been mainly the responsibility of the communes in accordance with their general medium-term plans. These programmes have been always made for various periods, dependent on the character of the activity in question. The development of the inadequately developed areas (with all its important elements such

as general system of infra-structure, including the main transportation systems and basic power sources) has been, mainly the responsibility of the Federation in co-operation with various republics and communes. However, the Yugoslav experience in the last fifteen years has clearly demonstrated that the importance of the non-economic aspects of the development situation have been less emphasized than the economic ones. Because of such policy and because of the time delays in the process of developing such activities and areas, some of the effects have taken place which the system could not yet provide general answers to them. These effects expressed themselves in the form of disrupted pattern of prices, occupations, income distributions and balance of trade. Nevertheless, an industrial base has been built, production and income began to grow significantly and demands increased for intermediate and consumer goods.

Beyond these crises, of inflation and the balance of payments, which shaped the last fifteen years' experience of the Yugoslav economic development lies the long-range questions of investment planning. Should expansion of consumer goods industries be held back until the capital goods industries and sources of basic materials are well established? Should investment be channelled primarily into transportation, communication, and power facilities? Should industrial development wait until agricultural output has been boosted? Or should the policy be one of "balanced growth" - and, if so, according to whose definition of balance?

In Yugoslav, as well as in other countries in process of development, the design of development policy was made especially difficult because of three main reasons:

First, by the conflict which existed between the immediate impact and the longer range effects of policy decisions;

second, by the degree to which policies aimed at one set of economic phenomena have unintended side effects on other aspects of the economy; and third by the fact that the nation has a variety of goals, all of which have to be considered in evaluating each policy decision.

The best that can be done by analysis is to estimate the comparative economic effects of alternative policies and leave it to the policy-makers to exercise judgment about these other effects that are beyond analysis but

are just as vitally important. For pursuit of the various national goals a variety of instruments is available. The principle ones among them being:

1. investment policy;
2. fiscal policy;
3. credit and interest rate policy; and
4. foreign trade policy.

It would be most convenient if each of the instruments of policy could be identified with a particular objective and assumed to have no effects on the attainment of other objectives. Then, certain policies could be used to promote the desired pattern of growth while others could be addressed independently to the control of inflation and others to stabilization of the balance of payments. A national economic system is not that simple, however. Almost any action addressed to the solution of a particular problem or to the attainment of a particular objective will have repercussions or side affects, some of which may take place indirectly and after some delay and are therefore difficult to foresee.

The economic structure of investments between 1945-1964

A brief analysis of the economic structure of investments during the period 1945-1964 reflects the insight of the investment policy practised by the investors concerned, including the Federal authority, the socio-political communities and the economic organization during this period. In this context the major trends were as follows:

- a. The two years (1945-46) did not show a formal investment policy. In fact, they represented a period of reconstruction, with the ultimate aim of repairing the severe war damage and putting the economy into operating condition. Consequently, it was too difficult to afford some sort of policy (explicit or intuitive) for long-run progress. However, on the 25th of May 1946 - before the construction was completed - Yugoslavia adopted the Law of Federal Economic Plan and the First Five-Year Plan (1947-51) was declared.
- b. The period 1947-52: This was the period of quick after-war development and better uses of industrial capacity. During this period the economy was adjusted to a very high degree of centralization and administrative management where the Federal Planning Commission was the supreme planning authority and all planning bodies were hierarchically responsible to the one above them.

In 1949, when it became evident that it would not be possible to complete the plan, the state called for a smaller investment programme "so-called key-investment programme" and extended the period of the plan execution until 1952. In this programme some projects (such as fuel, power and transport facilities and other similar projects) were included to eliminate bottle-necks in the economy and improve the balance of payments' situation.

- c. The period 1953-56; the objectives of the investment policy practised during this period were to complete and put into operation major projects, mainly in the basic industries, whose construction was launched in the preceding period. The whole accompanied by increasing investment in the remaining industries and in other sectors of the economy. It was marked by the creation, to a large extent, of the material basis needed for the investment policy to be followed in the next period.
- d. The period 1957-60: during the 1957-60 period, the investment policy helped the diversification of production and gave a stronger impetus to housing and the erection of public utility projects. In order to achieve an appropriate pattern of investments, it became necessary to encourage the advance of personal consumption and the social standard, at the same time to promoting those industries which, by virtue of their production costs, favoured a rapid increase of foreign trade and the incorporation of the Yugoslav economy in the world economy. Compared with the preceding period, the 1957-60 period witnessed both a relative and absolute reduction of investment in manufacturing, mining and quarrying. The idea of this reduction being to provide more room for increasing non-economic investments. Thus, the ratio between economic and non-economic investments began ^{to} undergo modifications. From about 70% for 1953-56, non-economic investment rose to an average of 20% of the total investments for 1957-60. At the same time, on the side of economic investments there was an increase in the sums put in agriculture and other branches of the economy.

It is noteworthy that among industrial investments there was an important decrease in investment in basic industries (power, metallurgy), accompanied by increasing investments in the processing industries.

These changes in the policy of industrial investment led to the rapid development of the over-all industrial output, and to increase in the range of industrial products. Thus, it became possible to meet the growing requirements of home consumption, while Yugoslavia was also enabled to appear as exporter of final manufactured goods. It must be pointed out that this structure of industrial investments was made possible during 1957-60 because of the maturing of some basic industry investment projects, the construction of which had been started in the preceding period.

Investments in transport and communication were on the rise during 1957-60 in relation to the total investments for the three years. Investments in building was also constantly increasing during this period, the main reason being the large investments in housing and communal projects, the erection of projects for the electrical industry, the improvement of transport and heightened concentration on commercial and catering projects fully occupied, the available building capacities with corresponding gains in the accumulative power of this economic branch. Nevertheless, the volume of investments in this branch could not satisfy the needs since its equipment did not prove to be on a par with the volume of the works to be executed.

Finally, the period 1957-60 showed a threefold increase in the investments made in socialized agriculture compared with the preceding period. Favourable conditions were then provided for the promotion of this sector. To enhanced accumulative power of the economy, the development of the industrial sector for the production of farm equipment and the reproduction materials intended for this economic branch, as well as the growing demand for farm products, stimulated by rising personal consumption, all were fundamental factors underlying this augmentation of agricultural investments. Added to this were the additional investments made to apply modern farming methods and the launching of large-scale reclamation projects.

However, towards the end of the 1957-60 period, the structure of industrial investment, with its inadequate attention to basic industries began to reveal its weakness. At that juncture the shortage of capacities involving electricity, metallurgy and other basic industries came

to be felt more and more, with resultant difficulties in the supply of certain raw materials and reproduction materials, and a considerable increase in their import.

- e. The period 1961-64: this period showed a rise in industrial investment in relation to total investments, notably in connection with projects involving the construction of processing plants. Simultaneously, large basic industry projects were launched and the reconstruction and modernization of the existent plants taken in hand. The switchover in the construction of basic industries was thought to be necessary with a view to offsetting, during the succeeding period, the disparities that had appeared in material production and eliminating them in certain sectors.

Agricultural investment marked a lower increase on account of the stepped-up investments in industry, building, trade, catering and crafts projects.

However, at the end of the 1961-64 period there appeared certain disparities in the output of manufacturing industries and of mining and quarrying. The output of electricity, coal, petroleum, ferrous and non-ferrous metals, basic chemicals, and cement was inadequate. The supply of electricity and coal fell short of the demands of the economy and considerable quantities of non-ferrous metals, fertilizers and cement had to be imported. In direct consequence of this, there were production losses, and adverse repercussions on the balance of payments. The outcome of all this has been disparity in material production which clearly appeared towards the end of the 1961-64 period.

As early as the first half of 1963 the Federal Executive Council decided that the capacities for the production of electricity and that of the products of ferrous metallurgy should be enlarged, and work was started on the construction of five thermo-electric plants and six hydro-electric ones, two new iron works at Skoplje and Smederevo; and the reconstruction of all existing iron works was taken in hand. Further expansion, schemes were carried out during 1964 and the early 1965.

There is no doubt that these investments will influence the structure of intra-industrial investments since by Yugoslav standards the mentioned

projects constitute big undertakings and are bound to absorb a significant proportion of the available funds to be completed. However, the Yugoslav accumulation is rather high compared to other countries, but whether or not this accumulation will be sufficient to meet such commitments in basic industry and leave sufficient resources for short-term investments, which account every year for a certain margin of the production increase is difficult to answer at this stage. This investment policy of continued industrial development will, surely, enable industry to keep the place it has always occupied in the country's investment policy, notably during the period 1961-64 but it is not sure yet whether it will succeed or not in removing the existing disproportionalities in the fields of material production, in transport and housing. The structure of past investments, being a reflection of the investment policy for the period under consideration, shows its basic evolution to have been identified with quickened industrial development, whereas in different periods, especially after 1957, attention was also paid to the remaining economic branches, it is true that industrialization has held pride of place ever since the war. This is explained by the strenuous efforts made to develop industry as the basic of the modern Yugoslav economy.

Past experience indicates that the structure of investments was modified by degrees, but, nevertheless major modifications were impossible to effect because the available capacities, earmarked for investment projects, took time to adjust for this purpose.

The inherited level of the productive forces and the relatively low accumulative power of the economy dictated the need for the gradual solution of different problems of development, and only in this way could the targets set be attained. The adoption of any other course would have given rise to a wider front of investment projects which the economy could not afford, nor could the targets set be attained. However, the investment policy of the period under consideration did not succeed to avoid the various disparities in material production that appeared, and still exist, in the Yugoslav economy. Such disparities can be shortlived or otherwise, depending on the investment policy to be followed in the succeeding period, its basic

aims, its trends and potential effects on the volume, dynamism and pattern of investment,

Expected trends for future investment policy

The Yugoslav investment policy for the coming period will be greatly influenced by commitments to complete the projects already under construction, that is, projects whose completion is overdue. Another determinant factor involves the disparities occurring in material production. Although the natural and institutional conditions already exist, still, it is through the future investment policy that these disparities could be overcome.

The investment policy and the structure of investments in the future will also be governed by decisions whose purpose is to raise personal income, personal consumption and the social standard. Although these decisions are of partial nature and not typical of the investment policy as a whole, they are indicative of certain investment trends for the period ahead, and still, the structure of investments will be influenced by them. Besides the economic structure of investments, its technical pattern also provides guidance as to the investment policy pursued during particular phases. In the case of economically advanced countries, equipment represents a major item in total investments, since it is the most productive item in the sense that expansion of industrial capacity proceeds mainly by way of reconstruction and modernization of existing plants. In the case of countries in the process of development, as it is the case in Yugoslavia, the cost of construction forms a substantial item owing to the fact that the erection of infra-structure projects and of new plants cuts very heavily into the total amount of investment. Further, the balance of payments' difficulties, as experienced by these countries, present a certain limiting factor in purchasing equipment abroad, so that, logically, the available investment resources are directed towards projects that are least likely to be hindered by such factors.

3. The economic position of working organizations

In assessing the position of working organizations, in the process of social reproduction and decision-making power in allocating investment

resources, one has to consider some of the most important elements which determine the framework of independence of these organizations. This framework is determined, as a rule, by the price system on domestic market, conditions of trade with foreign countries, fixed obligations of working organizations towards the community and finally by the access to credits under conditions of the credit system.

The framework of planning in the working organizations is also determined by their framework of independence. However, planning in these organizations, as well as in other socio-economic and political communities, is aimed, first for the purpose of achieving a fuller utilization of the productive potential and natural resources belonging to the working organization or to the social-political community in question. Second, within the framework of the Yugoslav economy as a whole, this is later completed by efforts to achieve a better co-ordination of social development and by efforts to determine their very course within a given more narrow framework. The working organizations, though relatively independent producers of commodities, still are subject to the Yugoslav economic system which involves some degree of co-ordination and directing of activities of the individual producers. This is why the overall process of social reproduction is regulated through the economic laws which co-ordinate the level of prices of the products on the domestic market, control the exchange rates, determine the rate of import duties and other conditions of foreign trade, decide upon the level of contributions and taxes, interest charges and maturities of loans.

The main factor which severely limits the framework of independence of the working organizations has always been the price system and price relationships prevailing in Yugoslavia since 1950. It is since then that the theory of price formation has been vigorously discussed in search for objective bases for a price policy. The basic difficulty has always been the attempt to find a way of applying a price theory whereby, on the one hand, supply and demand relationships tend to establish economic equilibrium, based on a competitive capitalist theory, and, on the other hand,

to find a way of applying this theory to a system where a free market does not exist.

However, the Yugoslav pricing practice during the last fifteen years cannot be easily reduced to a single general theoretical principle. Objective criteria for price determination has always been demanded. The lack of such criteria has affected the operation of the "economic accounting" of both social enterprises and private undertakings as well as the performance of other price functions, such as the evaluation of the achievements of enterprises, the income distribution and the economic relationships in general.

C H A P T E R I V
CONCLUSION AND FINAL REMARK

In this chapter a conclusion and some final remarks are given, the main aim being an effort to find out a proper co-ordination of work where solutions can be found which suit the interests and the needs of direct producers' objectives and that of the social community as a whole.

Starting from that I can say that in the process of creation and utilization of ~~resources~~ for enlarged reproduction (capital formation) is an integral concern of the community as a whole and the economic system is an expression of the social function to achieve that end. Thus, the social-political communities (federation, republics, communes) implement their plans in using direct as well as indirect measures, first of all those of an economic character, through which the activities of factors deciding on enlarged reproduction are channelled in the desired direction, in accordance with the accepted economic policy to direct and well co-ordinate economic and non-economic activities, within the framework of the existing economic system.

Among these measures one may include, first of all, prices and price relations on the domestic market, which together with the foreign trade regime determine the conditions of sale of the produced commodities, and, in turn, determine the so-called primary distribution of social resources (income) among the various working organizations and the various activities. In addition to those two factors one may also count upon the relative stability of economic policies in the sense that major changes may occur only within longer periods of time, in any case not shorter than the periods of medium-term plans. Various forms of the communities' influence can refer to all, or only to particular elements of the economic system. In that connection the monetary and credit policies and the foreign trade policy will be the main concern of my analysis.

To start with, one can say that the fundametal task of economic laws and provisions in this field is to regulate, through proper monetary and credit policies, the money supply and the volume of credits, as well as

the stability of the general price level and of the basic relationships among the prices. Similarly important is the maintenance of price stability in the short-run through the use of financial measures, exchange and commodity reserves, exports and imports, as well as through direct administrative interventions (mainly in the case of monopolistic and similar tendencies).

Through a maximum degree of price stability, it will be possible to pursue only long-term development policies, and only so that these policies be incorporated into the price system. The recourse to economic instruments may allow a relatively higher or relatively lower prices of products or services of a given branch or activity in a given period, in order to stimulate their development. Thus, for instance, through the introduction of customs protection one may secure relatively higher prices, and thereby a higher capability of capital formation in the given branch or activity. Through the introduction of turnover taxes consumption and production are destimulated and this also reduces the capability for capital formation of the given activity. Through these measures it is possible to obtain two effects: first, to increase or decrease the own resources of a given activity available for enlarged reproduction and second, to increase or reduce the competitive power of this branch in its search for credits, or, in other words, its credit worthiness. This way of influencing price formation can possibly constitute an important level for long-term co-ordination of economic policies, and for determining their course.

Secondly, the foreign trade policy plays in the domain of foreign trade the same role as prices in internal trade. Together with price relations, this system determines the economic position of working organizations and activities in the primary distribution of resources. The possibility of influencing this system, so as to change some of its instruments in order to regulate the volume and structure of foreign trade, exerts a direct impact on the position of various branches and activities and hence, on their orientation in organizing production and in deciding on investments. What seems of particular importance in this occurrence is the necessity to assure a complete synchronization of both kinds of instruments and long-term development policies. If this is not the case these instruments may act

in the opposite direction, in a way which will neutralize fully or partially their effects. Thus, for example, custom duties and turnover taxes have opposite effects, and for that reason they should not be applied to the same products.

The system of taxation and duties which the working organizations have to pay to the social-political communities determines the second, so-called secondary distribution of resources among the working organizations and the various branches of the economy and also among these organizations and social-political communities. In the very essence, it is through this system that the factors determining the process of social reproduction form the material, viz. financial resources which shall remain at their free disposal. In order to push up the process of co-ordination and channel the course of economic development into a given direction, the influence of the community on this process must be exerted through changes (reduction, increase or abolition) of individual duties or through the introduction of some new ones. Certain branches and activities can temporarily be exempted from certain duties or from a part of their duties, and this could be done by fixing in advance the use of resources for certain purposes. Exemptions from duties (contributions or taxes) can be ordered by the social-political communities, more particularly with a view to attracting capital resources into a given economic sector.

A determined amount of influence can be exerted on the distribution of incomes inside the working organizations, so as to allocate one part of their revenue to personal incomes and another part to the funds freely administered by the organization in question. In this domain the influence of the community can be exercised in a way which stimulates the working organizations through various fiscal and other privileges, to allocate a portion of their resources for determined purposes. In this way it will be possible to influence the orientation of enterprises towards adopting a certain pattern of production, and investments, but it will also be possible to influence the basic relationships in the distribution of income among various forms of consumption.

The redistribution of resources collected by social-political communities is also a very powerful factor in influencing economic policy and social allocation of resources. By using of direct and indirect measures the social community can exert an influence on the flows of resources destined for enlarged reproduction, through bank channels, specialized institutions, and if it deems necessary through enacting legal provisions. In these ways, and with these measures, mentioned earlier, the social community can efficiently increase the capability of capital formation of various branches, thus, improving their creditworthiness and in turn enabling them to compete successfully with other branches in applying for bank credits. The same result can be achieved when the social-political community, participates with its means in covering one part of the interest charge the given branch has to bear, or of the costs connected with establishing certain projects.

All these and other instruments of the system which form a major part of the complete mechanism through which the influence on the economic and non-economic movements is exerted, have to be consistent both mutually and with the accepted economic policies. A ramified and well organized system of providing information to all the factors participating in the decision-making process is an essential need for a conscious and properly organized management, not only of economic but also of social affairs. This system, understood in the sense that it may convey the results of scientific knowledge concerning social reality, its objective and subjective factors and of their behaviour, is a precondition for successful economic policy where a proper direction can be given to economic and social movements and a proper co-ordination of work can be achieved.

However, in Yugoslavia, efforts are being made nowadays to establish a minimum of planning methodology, in order to find a language understandable for every body in planning and analyses. What seems to be a necessity is elaboration of a planning methodology for non-economic activities, in view of the fact that plans become more and more plans of all social activities.

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