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Self-management in the Former Yugoslavia: From a Viewpoint of Corporate Governance

Introduction

Self-management is a unique system that communists in the former Yugoslavia first invented. The outline of its mechanism can be depicted as follows: The highest decision-making body of an enterprise was workers' council, whose members were elected among workers of the enterprise. Workers controlled the management of their enterprise through the workers' council. However, professionals of business administrators, who were daily engaged in management of the enterprise, were indispensable. Professionals such as directors were appointed by workers' councils after calls for candidates for the posts and selections of the candidates by selection committees. A general director was empowered to represent his enterprise and was requested to endeavor to develop the enterprise. Workers' councils had a power to relieve directors from their positions depending on circumstances. Between professionals and workers there was delicate relationship in which the former directed the latter in daily operation on the basis of professional expertise and experiences while the former were controlled by the workers' council. Futagami (1978) aptly expresses this relationship as 'management without employers'. Self-management can be found in capitalist economies as shown by a case of Mondragon¹ in Spain or voluntary continuation of operation of bankrupt enterprises by trade unions². In the case of the former Yugoslavia, however, self-management was not confined to the level of individual enterprises. Self-management, which started in 1950 in this country, was at first applied to industrial enterprises. Then the scope, in which self-management was carried out, was gradually extended also to other spheres including public services. This was an ambitious experiment which aimed to govern not only the economy but also the whole society including politics, based on the principle of self-management. This was in striking contrast to other socialist coun-

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¹ I learned the case in Mondragon from [Thomas et al., 1982], [White, 1991] and [Tomizawa et al., 1988].

² Inoue presents a detailed case study of voluntary continuation of operation of a bankrupt camera-producing company by its trade union in Japan [Inoue, 1991].

tries. It is noteworthy that according to a sociological survey at the level of workplaces Yugoslav workers' sense of belonging to their enterprises marked higher points than Japanese workers [Denki Rohren, 1985].

Due to the economic crisis, which surfaced in 1980 and was increasingly deepening, as well as conflicts among Republics and changes in the international environment (the end of the cold war, development of the economic integration in Western Europe, etc.), the former Yugoslavia was finally broken up in 1991. The genesis of the economic crisis was closely related to the self-management system. This paper makes an historical evaluation of workers' self-management which lasted for about 40 years in the former Yugoslavia from a viewpoint of corporate governance. My approach to the problem is economic history combined with comparative economic system.

After having explained the evolution of self-management system, this paper analyzes essential problems lying in the system, focusing on the regime of the 1974 Constitution. Then countermeasures against the economic crisis are briefly explained. Finally the paper draws some conclusions.

1. Evolution of Self-management in the former Yugoslavia

Postwar history of the former Yugoslavia is divided as follows: The first period (1945–1952): Period of the Construction of the Revolutionary Etatism; The second period (1952–1964): Period of the New Economic System; The third period (1964–1971): Period of Market Socialism; The fourth period (1971–1979): Period of Associated Labor³ and Social Self-management; The fifth period (1979–1989): Period of Economic Crisis and Grope for Escape from Crisis; The sixth period (1989–1991): Period of the Regime Change and the Federation's Breakup. To explain the process of the evolution of self-management system in the former Yugoslavia, I will briefly describe a short history from the first period to the third period.

The first period: Yugoslav people with communists as a core endeavored to construct socialism of the Soviet type. After the expulsion from the Cominform in June 1948 and the subsequent conflict with the Soviet Union communists in the former Yugoslavia became skeptical about the

³ The conception 'associated labor' came to be often used in the former Yugoslavia since the early 1970s. This derived from Karl Marx. He considered socialism "associations of free people who work with common means of production and consciously expend their many individual labor forces as a social labor force" [Marx, Engels, 1960, p. 105]. In Yugoslav literatures, it was explained as follows: "Associated Labor is the generic concept embracing all forms of relations and institutions established among people who jointly manage the socially owned means of production and dispose of the income resulting from their labor, in conformity with the Constitution and the law" [Pasic, 1982, p. 20].

Soviet type of socialism and groped for the alternative. They found 'self-management of direct producers' in the works of Karl Marx and apprehended this conception as the core of socialism. They attached importance to an idea of Marx and Engels, i.e., 'withering way of state'. In their view, in the Soviet type of socialism, which had hypertrophied state apparatuses, party and state bureaucrats were engaged exclusively in administration and had their own interests different from workers while the latter were exclusively the objects of control and practically had little difference from wage workers. Yugoslav communists came to believe that if they are faithful to the thought of Marx, Engels and Lenin, their socialism must be self-managed socialism in which direct producers, i.e., ordinary workers control their workplaces. For them, 'withering way of state' was not a task of the distant future but a task of the near future, and therefore they had to strive consciously to reduce the state apparatuses. That is why social ownership of means of production instead of state ownership was advocated in the former Yugoslavia. In June 1950 the law on workers' self-management was enacted, and self-management was applied at first in industrial enterprises. The specific system of self-management has been often changed through trial and error.

The second period. The centralized planning and managing system was still maintained, but such a system was incompatible with the principle of workers' self-management. In the end of December 1951 the new law on planning and management, which denied the law on state planning of 1946, came into effect. The concept of planning has changed from previous vertical and individual guidance by state institutions to a guideline-like social plan based on 'basic proportions' which basically guide production as well as distribution and expenditure of national income.

The third period: A drastic economic reform was implemented in 1965. The state transferred various responsibility, which it had retained so far, to enterprises. Economic policies in the second half of the 1960s were characterized by naive trust in market mechanism. As the control by the state became weaker the market mechanism increasingly gained power. Concomitantly, various problems peculiar to the market mechanism such as inflation, unemployment, expansion of disparity in economic power among enterprises, etc. became conspicuous. Self-managed enterprises were placed in the relationship in which they competed with one another autonomously under the market economy. Accordingly, managerial functions of self-managed enterprises have become far more important than before, and professionals who graduated from universities, i.e., the so-called technocrats played increasingly important roles. In the late 1960s

there was a strong protest by the youth who regarded the above mentioned phenomena as contradiction to self-managed socialism. The party leadership with Tito as top responded to the protest by promising drastic measures to improve the situation. The main theme in the 1950s was the struggle against state bureaucrats and empowerment of self-managed enterprises while the main theme in the late 1960s and the early 1970s was the struggle against the technocracy.

2. The Regime of the 1974 Constitution

In order to tackle negative phenomena of the market economy and to appease a discontent of the developed Republics, in February 1971 the Amendment to the Constitution was adopted, according to which 'Basic Organization of Associated Labor' [Osnovna Organizacija Udruzenog Rada: OOUR] should be organized in all workplaces. The idea of the Amendment of 1971 was systematized into the 1974 Constitution.

This Constitution, firstly, determined that the power of Republics and Autonomous Provinces were strengthened and that Yugoslavia should exist as a looser Federation. This was based on the consideration that decentralization was necessary to suppress such nationalistic movements as occurred in Croatia in 1971 and secure political stability.

Secondly, the regime had pursued economic democracy through the elimination of technocracy and the realization of self-management in workplaces which had been smaller than "enterprises". For this purpose, within an enterprise a technical unit which was called OOUR should become the smallest unit of self-management and an enterprise should be reorganized as a loose combination of OOURs. Enterprises reconstructed in this way were officially called Work Organization (Radna Organizacija: RO). Combined enterprises were officially called Composite Organizations of Associated Labor [Slozna Organizacija Udruzenog Rada: SOUR]. Instead of enterprises, a generic term 'Organizations of Associated Labor' was used in the regime of the 1974 Constitution. In this paper, however, a conventional term 'self-managed enterprises' is used for convenience' sake.

Thirdly, the principle of self-management was applied also to the sphere of public services (education, health, etc.) and various kinds of self-managed community for interest (SIZ) should be organized in each commune. SIZ was intended to directly connect providers of services and users of services (= providers of funds) without mediation of the state and a market. The market mechanism was not completely denied, but instead the so-called contractual mechanism became emphasized.

Fourthly, in respect to the socio-political system the regime had pursued thorough democratization and 'de-professionalization' of politics by making a great number of workers and citizens participate in politics through the delegate system. What is more, communists in the former Yugoslavia wanted to realize these goals within the framework of the one-party system. During this period decentralization was pursued at both the level of the state and the level of workplaces. At the same time, however, the League of Communists of Yugoslavia (LCY) as 'one ring to bind all' [Rusinow, 1977, p. 308] intensified the tendency of recentralization of itself as if it tried to brace slackened hoops. The development of democracy within the framework and on the premise of one party rule of LCY was self-contradiction.

In the regime of the 1974 Constitution an idea was stressed that workers in a workplaces should control and dispose the income which they created by their labor and that workers should control the reproduction of the society. This idea implicitly presupposed that there were many workers who were willing to work consciously not only for immediate profit but also for long-term interest of their enterprise and the whole society. However, there always remain fundamental questions whether democracy is compatible with efficiency and whether workers are capable of macroeconomic control. The economic crisis which surfaced in the early 1980s was an answer to these questions.

3. Essential Problems of Self-management in the Former Yugoslavia

3.1. Social Ownership of Means of Production

As mentioned above, communists in the former Yugoslavia strongly criticized state ownership and instead advocated social ownership. The unique conception of social ownership can be summarized in the expression: "Means of production are everybody's and nobody's". This conception has a strong anonymous character. Workers were constitutionally assured a right to work with socially owned means of production. In fact workers exercised this right as a working group of self-managed enterprise. Self-managed enterprises were required to maintain and increase the value of the means of production which they had been occupying and using. Economic operations in 'social ownership' tended to result in 'socialization of losses' or 'socialization of risks'. For example, procedures for bankruptcy and liquidation were seldom taken to loss-making self-managed enterprises.

3.2. Accounting System

I would like to explain the essential defects of the self-management in connection with accounting system. The wage system was abolished in 1958. Instead, value added became treated as 'income' and this, in turn, became a key conception of the self-managed socialist economy. Since then 'personal income' which corresponded to wage in capitalist economy was no longer treated as a cost by enterprises until the collapse of socialism in the former Yugoslavia. In the self-managed socialist economy only material inputs were counted as costs, and the inputs corresponding 'labor costs' were not counted as costs. In other words, there was no motivation for reducing 'labor costs'. Here was an essential defect of the self-managed socialism. In this connection, I would like to quote a Croatian economist Rudolf Bicanic's explanation of the self-management [Bicanic, 1973, pp. 107–108]:

The workers who run socialized property through workers' council do not receive wages and salaries, but get their earnings in the form of personal income. In other words, the workers are not considered to be hired personnel who have the right to be paid, but receive from the enterprises the amount which they have earned by their work. The wage system has been completely abolished. In this situation the workers' earnings do not represent costs of the enterprises. The workers are operators of socialist funds who choose the workers' council and therefore have to carry the risks of management.

In principle, 'personal incomes' should have been fixed as a residual. Incomes of enterprises and personal incomes were fixed after the following process: When we deduct material costs (raw materials, fuels, etc.) and depreciation, based on the legal rate, from total revenue (total sales) we get gross income. When we deduct taxes and special depreciation, etc. from the gross income we get net income. When we deduct fund for expansion of material basis of labor, reserved fund (these two funds were called 'accumulation') and fund for joint consumption from the net income we get gross personal income. When we deduct taxes (commune tax, Republican tax and various contribution, etc.) from the gross personal income we get net personal income.

If I emphasize the principle of self-management we can say the following: If performance of a self-managed enterprise is better and the sales volume is more than planned, then the income of the enterprises is bigger and consequently personal incomes of workers are also bigger than planned. If the performance of a self-managed enterprise is poor and the sales volume is less than planned, then the income of the enterprise is smaller and naturally personal incomes ought to be smaller than planned. Since workers

were at the same time joint managers in self-managed enterprises, they should have taken such a risk.

As for behavioral models of self-managed enterprises, there have been many discussions since Benjamin Ward (1958)⁴. A model by Branko Horvat (1975) explains the reality relatively well. His model, however, seems to explain only a half of the reality. According to Horvat's model, at the beginning of an accounting term a workers' council determines the level of personal income to be attained. It is the personal income of the previous term plus an additional amount. Once the expected personal income is determined, the enterprise aims to maximize a residual income, as shown by the following formula:

$$\pi = pq - [(d + \Delta d) x + k] \quad (1)$$

Where π means a residual income, p price, q output, x the number of employees, and k fixed cost. It is almost same as the neoclassical's object function which aims to maximize profit. The amount of personal income which workers actually receive is different from expected personal income. The amount of personal income they receive can be higher or lower than the expected personal income depending on performance of the enterprise.

In reality, however, this did not occur. When the performance of a self-managed enterprise was better the amount of personal income which workers actually received, as a matter of course, exceeded the expected personal income. Even in the case of poor performance, however, the amount of personal income which workers actually received was seldom below the expected personal income. This point was endorsed by Janez Prasnikar, who conducted a survey on 147 enterprises in the former Yugoslavia from 1979 through 1982. According to his survey, 37 percent of the surveyed enterprises accomplished planned accumulation and planned personal income. Only 6.7 percent of the enterprises accomplished accumulation by reducing personal income. Almost a half (49.6 percent) of the enterprises realized a part of the planned accumulation after paying per-

⁴ Benjamin Ward [Ward, 1958] explained behavior of a firm which was called the firm in Ilyria (the name of the aborigines in the former Yugoslavia and the area they lived), using a theoretical model. He puts the following assumption: The firm in Ilyria operates in a purely competitive market. Workers who are at the same time managers are interested in maximization of the income per capita for a given period. Only things that the firm can utilize are labor which is homogeneous input and fixed equipment which the state owns. The firm pays a rental fee of capital to the state, etc. Ward's paper later caused lively discussion. For example, there is a problem that Ward's theoretical model does not coincide with the reality in the former Yugoslavia, i.e., the self-managed enterprises seldom fire their colleagues. 'Perverse reaction' [Pfouts and Rosefielde, 1986, p. 160] of the firm in Ilyria to change the quantity of its output in opposite direction to a change in the price for the product (an increase in price \Rightarrow a decrease in output) also became one of important issues.

sonal incomes. In this way, as things turned out accumulation was often sacrificed for distribution of personal income [Prasnikar, 1983, pp. 43–59]. I cannot keep myself from saying that most of Yugoslav workers were not prepared for taking risks as self-managers. From this point the following phenomena derived.

3.3. Simultaneous Expansion of Consumption and Investment

In distribution of income of enterprises workers demanded larger part for personal income and joint consumption, and the management acquiesced such a demand. In distribution of the social product of the former Yugoslavia in 1978, for example, 73 percent of the gross income was distributed for personal income and joint consumption, and only 8.14 percent was distributed for 'accumulation', i.e., savings [Skulic, 1982, p. 7]. The proportion of the former to the latter was almost 9 to 1. In spite of such a low rate of savings, both workers and management were very eager to invest in plant and equipment. The share of gross investment in social product⁵ was about 36 percent from 1976 through 1980, and it reached 42.5 percent in 1978. The amount of accumulation by self-managed enterprises was less than one fifth of their total investments. Why self-managed enterprises with deficient 'accumulation' (owned funds) were able to make such a large scale of investments? The reason lay in the fact that they were able to find most of their investment funds from the exterior sources. In this regard, Masayuki Iwata (1985) gives us an excellent explanation. His explanation can be summarized as follows:

A member of workers' group is a worker doing his/her job at his/her workplace and, at the same time, a consumer enjoying a life at his/her home. As a worker he/she wants to use the newest equipment as possible and achieve high productivity and high quality (spirit of producers and engineers). As a consumer he/she wants to buy the newest color TV and build the first or second house (spirit of consumer and citizen). In this way, each person has, so to speak, both spirit of producer and engineer and spirit of consumer and citizen. Of course, supposedly, persons holding managerial positions such as general directors and chief engineers more often speak in accordance with the first spirit while ordinary clerks and workers more often request in accordance with the second spirit. Both of them share the two spirits. However, self-managed enterprises have limited funds available. If technological innovation is attached importance and more funds are distributed to investments, then consumption be-

⁵ 'Social product' is a category which corresponds to 'national product' in production branches plus 'amortization' plus 'turnover tax', and it is a variant of Gross Material Product (GMP).

comes smaller. If a fulfilling life is attached importance and more funds are distributed to consumption, then investment becomes smaller. If there is enough time to discuss and communicate it might be possible to reach a compromise on the premise of limited funds, but the time is limited. Then a decision was made to satisfy both technological innovation and fulfilling life, meaning that the expenditure exceeds available funds. The contradiction can be adjusted by borrowing from outside for a time being. If all economic entities in the self-managed socialism behave in that way, the total expenditure necessarily exceeds the total income in the whole society. Since there are no lenders but only borrowers in such a society this is an absolute contradiction, which can be solved only by either emission of additional paper money or foreign loans [Iwata, 1985, pp. 41–44].

Indeed what occurred in practice was an increased issue of paper money (=acceleration of the inflation) and an increase in borrowings from abroad (=accumulation of external debts).

4. Problems of the Regime of the 1974 Constitution

4.1. Directors' Weak Power

In the first half of the 1970s reorganization of enterprises was carried out with the aim of excluding technocrats' rule from enterprises and rebuilding workers' control. Aleksandar Bajt (1984) called this movement 'economic cultural revolution'. In his opinion, as a result in reality managers became subordinated to politicians' strata and the latter became real decision-makers. No matter how they aimed at the exclusion of technocrats' rule, needless to say that professionals in management were indispensable to self-managed enterprises. Sifter, the author of a book *Director*, depicted an image of expected directors as follows: Directors have expertise and are organizers and coordinators of labor. Externally they represent self-managed enterprises. Within their places of work they make arrangement for creating good human relations, set workers adequate tasks and always make efforts to improve labor productivity [Sifter, 1978, pp. 41–96]. Directors did these works under the control by workers' councils. However, I wonder how many directors existed who could meet such expectations⁶. As one of the reasons for why a position of director lacks at-

⁶ According to Borowiec, the LCY wants to have managers who have sound understanding on market laws and at the same time are loyal to the party. As always, however, directors of self-managed enterprises tended to be condemned for poor performances. As a result, such a situation has led to a crisis of a shortage of managers in which for a period of time from 1975 through 1976 even though self-managed enterprises made public advertisements of directors' posts there were very few applicants [Borowiec, 1977, p. 84].

tractiveness Sifter mentions a point that it bears responsibility for so many matters while decision-making power is too small [Sifter, 1978, p. 120].

4.2. Excessive Decentralization

Decision-making at a level of a self-managed enterprise (RO) was based on a consensus. This led to a situation in which any decision at a level of RO could not be made if all the delegates from constituent OOURs did not approve, consequently preventing timely decision-making often. Instead of important projects, viewed from a standpoint of an entire RO, even minor projects were sometimes allocated funds of the RO. The regime aimed at the economic development according to plan by spreading numerous self-management agreements and social contracts like meshes of networks over the whole society (contractual mechanism), but in practice this mechanism proved very inefficient.

4.3. Defect in Banking System and Laxity of Financial Discipline

If banks scrupulously checked enterprises' applications for loan taking into account their repayment ability, the simultaneous expansion of consumption and investment might not have occurred. In this regard, however, we need to consider the unique banking system in the former Yugoslavia. As a result of the economic reform in 1965 the scope in which market mechanism operated was remarkably expanded and accordingly the role of banks in the economy was enhanced. In the late 1960s, however, criticism was raised of the self-management being emasculated. Edvard Kardelj, a chief architect of Yugoslav self-management system and the next greatest leader of the LCY to Tito, criticized banks, saying that in the field of the expanded reproduction banks, in the place of the state, practically grasped decision-making power on investment and tended to become an independent economic center, leaving away from the social system of the self-management⁷. It was in striking contrast to 'main bank system' in Japan where the role of banks monitoring enterprises' performance has been positively evaluated.

In the 1974 Constitution, banks were given a status of financial institutions which ought to serve organizations of associated labor (self-managed enterprises)⁸. The way of founding banks was changed in such a way

⁷ A commentary by the translator [Kardelj, 1978, p. 235].

⁸ There was a big difference between the dominant opinion and foreign researchers' view concerning the evaluation of banks. Laura d'andrea Tyson, an American researcher, said in her book published in 1980: "Although outside observers might conclude that the Yugoslav banking system has been weakened and its operation distorted by 'excessive' borrower or customer control over bank lending policies, the dominant opinion in Yugoslavia in recent years has been almost the opposite - i.e., that banks have had too much influence on and independence from the enterprises they serve" [Tyson, 1980, p. 50].

that self-managed enterprises found a bank by pooling funds. The highest organ of banks was the bank assembly, which was composed of delegates who were sent by self-managed enterprises, founding members of the bank. The right to vote at bank assemblies was not proportional to the amount of money invested. Each founding member enjoyed one vote. In fact, a small number of founding members, which sent their delegates to managing board of the bank exerted an important influence on bank management. Local political circles, which had a big influence on the election of the bank director, likewise, exerted an important influence on the bank management. Self-managed enterprises owed banks a large amount of debt, and local political circles were interested in financing the local self-managed enterprises for the purpose of development of the regional economy. These facts meant that banks were actually managed by big debtors. Therefore, the principal interest of banks did not consist in maximization of contributors' profit. Pressures were constantly put on banks to make interest rate as low as possible. The level of inflation rate in the 1970s was almost always at a double digit (fluctuating between 9 percent and 26 percent). Since low interest rate in the high rate of inflation meant substantially negative interest rate, a situation in which debtor-enterprises were advantageous was created.

Even if the interest rate was substantially negative, banking business did pay as long as the lending interest rate was higher than the depositing interest rate. Such a low interest rate was due to remnants of the old idea that capital should be free of charge and the influence of an ideology that unearned incomes were evil. Banks gave loans with low interest rate. In addition, they did not actively seek to withdraw the principal lent. Instead, they gave short-term loans additionally in order to enable the self-managed enterprises to pay interests continuously. The banks were interested in acquiring interest to form their own revenues and to avoid reckoning up the losses. Even if a loan proved a failure, the central bank bore the consequences.

Defects in the foreign exchange control system also encouraged financial discipline to slacken. According to Gnjatovic (1985), borrowing from foreign countries had been made in a centralized way until 1966. In 1966 by the reform in the foreign exchange control system, borrowings from foreign countries should be basically made by banks and these banks in turn gave enterprises foreign currency loans. Such a system had lasted until 1971. Till then debts to foreign currency loans had not amounted to a serious level. By the new law on business of foreign exchange and credit of 1972, however, self-managed enterprises became main borrowers in foreign countries. "The sudden liberalization of main borrowers in foreign

countries had exerted direct influence on a rapid increase in borrowings, especially financial loans" [Gnjatovic, 1985, p. 147].

5. Economic Crisis and Breakup of the Federation

The accumulated external debts, which were US\$ 3.2 billion in 1971, amounted to US\$ 9.5 billion in 1977. Afterwards, they quickly increased in a short period and approached US\$ 15 billion in 1979. The economic development relying on foreign borrowings could no longer be continued. A turnabout in the economic policy began in the middle of 1979. A joint session of the Central Committee of the LCY and the Confederation of Trade Unions of Yugoslavia was held at the end of 1979, and at the meeting it was stressed that the stabilization of the economy would require a restraint of increase in personal incomes of workers.

In this way, reduction of the all types of consumption including investment, devaluation of the dinar, restraint of imports and expansion of exports were pursued. When the economic development had come into collision with a blank wall of external liquidity and the support by foreign borrowings had disappeared, contradictions of the economy had at once come to the fore. Although the former Yugoslavia succeeded in forcing the international balance of payments into equilibrium by the turnabout in its economic policy, other indicators took a sharp turn for the worse. In the first place a shortage in semi-final products came to the surface, in turn, affecting production negatively. The accumulated external debts amounted to US\$ 18.4 billion in 1980 and US\$ 20.2 billion in 1980. Although it showed little increase, the debt service ratio in terms of hard currencies reached 43 percent in 1983. The obligation of repayment became a heavy burden to the economy of the former Yugoslavia.

I think that the above mentioned causes synergistically exerted influences on the economy and finally led to the economic crisis. In other words, the economic development in the 1970s was based on a lax economic operation. The regime of the 1974 Constitution further aggravated the loose economic operation.

At first leaders of the former Yugoslavia tried to overcome the economic crisis within the framework of socialism. But they gradually became obliged to seek recipes which would exceed the framework of socialism. An important fact is that this country had an enormous amount of accumulated foreign debts and therefore it had to keep in line with advices by the international financial institutions. Already the long-term program for economic stabilization, which started in 1981, was elaborated under the influence of the IMF. According to Abe (1993), the former Yugoslavia

had observed the instructions by the IMF fairly well, although not sufficiently, especially after 1986. The conditionality of the IMF was as follows: (i) Adaptation of the policy of interest rates higher than the inflation rates; (ii) Price policy oriented to the abandonment of the price freezing system; (iii) Policy of maintaining substantially real dinar rate; iv) Establishment of financial discipline; v) Limitation of an increase in personal income (wages). However, the economic crisis was not overcome but rather aggravated. The reason is that the IMF had adapted to the former Yugoslavia "a general recipe which was adaptable to any country". But the former Yugoslavia had an idiosyncrasy, i.e., the unique self-managed economic system [Abe, 1993, p. 132]. In December 1990 Prime Minister Ante Markovic announced an economic policy which would promote the transition to a market economy with strong support by international organizations such as the IMF, but at that time conflicts among Republics had already deepened and the Federal Government had completely lost the internal basis to implement it.

Conclusion

The economy of the former Yugoslavia after the economic reform of 1965 was called 'market socialism' by Western observers. It can be regarded as a precursor of 'socialist market economy' of the present China, but the attempt of the former Yugoslavia did not last so long. Strong criticism was raised against negative phenomena accompanying the development of the market economy as well as increased power of technocrats in self-managed enterprises. In response to it, the 1971 Amendment to the Constitution was promulgated, which was later systematized into the 1974 Constitution. In retrospect, the regime of the 1974 Constitution was too idealistic. The idea of this Constitution was that not only the economic sphere but also the whole country including spheres of public services and politics could be functioned on the basis of self-management. The Constitution did not suppose solutions of serious crises. The regime was based on an optimistic premise that conflicts among and within self-managed enterprises could be solved by discussions in a self-managed way.

In the former Yugoslavia assets in self-managed enterprises were in social ownership. Consequently, there were no shareholders. If I emphasize the principle workers in self-managed enterprises were joint managers. They should have controlled the management through the workers' councils. However, workers who had awareness of joint managers were fewer. They were most interested in their personal income (= wages). Directors' power was reduced considerably especially in the regime the 1974 Con-

stitution. In contrast to central planned economies, there were not strong bureaucratic apparatuses in the economic area like Gosplan and Gosstab nor directives from above. Instead, constantly pressures came horizontally from political circles at a commune level.

Banks lacked autonomy in the regime of the 1974 in which banks were given a status of financial institutions which ought to serve self-managed enterprises. The way of founding banks was changed in such a way that self-managed enterprises founded a bank by pooling funds. The highest organ of banks was the bank assembly, which was composed of delegates who were sent by self-managed enterprises, founding members of the bank. Local political circles, which had big influence on the election of the bank director, likewise exerted an important influence on the bank management. Self-managed enterprises owed banks a large amount of debt, and local political circles were interested in financing the local self-managed enterprises for the purpose of development of the regional economy. These facts meant that banks were actually managed by big debtors. That is why even in the decentralized self-managed socialist economy of the former Yugoslavia, let alone central planned economies, also the problem of 'soft budget constraint' emerged.

In the case of the former Yugoslavia communists attempted to make a whole country function on the basis of the principle of self-management. Functioning of a whole country naturally involves problems of politics. As can be seen from the experiences of the former Yugoslavia, it was impossible to make a whole country function on the basis of the principle of self-management. Still I think it is possible to make an enterprise function in a self-managed way.

Nowadays coordinative labor is reappraised⁹. The most successful case is Mondragon in Spain where workers invest a certain amount of money in their companies and participate in the management. There the idea of coordinative labor has spread from industrial production to agricultural production, consumption, education and banking, and many organizations are connected with one another by a network. The Mondragon's case seems to have something in common with self-management in the former Yugoslavia in the spirit. Its difference from the case of the former Yugoslavia lies in the fact that their companies are not based on social ownership but on private ownership and that workers themselves invest in their own companies. It seems that a key to success is that there exist workers who not only have a right to participate in management but also are ready for taking risks.

⁹ NHK (the Japan Broadcasting Company) broadcasted a TV program 'Close Up Gendai [the present time]' on February 7, 2013 with a title "All employees are at the same time 'managers': break down difficulties in employment". In this program Mondragon's case was introduced as a successful case of cooperative labor.

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Self-management in the Former Yugoslavia: From a Viewpoint of Corporate Governance (Summary)

This paper makes an historical evaluation of workers' self-management which lasted for about 40 years in the former Yugoslavia. Directors' power was reduced considerably especially in the regime of the 1974 Constitution. Banks lacked autonomy in this regime. Banks were given a status of financial institutions which ought to serve self-managed enterprises. The way of founding banks was changed in such a way that self-managed enterprises founded a bank by pooling funds. Self-managed enterprises owed banks a large amount of debt, and local political circles were interested in financing the local self-managed enterprises for the purpose of development of the regional economy. Banks were actually managed by big debtors. Due to these defects self-management in the former Yugoslavia proved inefficient.

Keywords

workers, self-management, former Yugoslavia, bank, 1974 constitution