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# **TWO ARTICLES ON YUGOSLAVIA**

## **Workers' Control, the Latest Phase**

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## **Peaceful Transition from Socialism to Capitalism?**

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# Yugoslav Workers' Control: The Latest Phase

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In this article, we are concerned with a social system which seeks to interpret democracy in terms of the participation of the whole working population of a country in the processes of decision-taking at all levels of the social organization. This concept starts from a different basic assumption from that which underlies the social systems of the Western liberal democracies. In the latter, the words "freedom" and "democracy" are primarily concerned with the life of man as a political animal. The liberal considers that a society is free if he can answer the following questions about it in the affirmative. Have the people the right to turn out a government of which they disapprove? Is there the right of free expression of minority opinions and the right to criticize and oppose the government of the day? Are the law courts free from interference by the Executive or by a political party?

Even assuming that these conditions are fulfilled in any existing liberal democracy—and in practice they are suspended where a fundamental challenge to the social order is presented—there would still be a serious objection to their validity as expressions of democratic principle. The implication behind what is excluded from them is that all the important decisions in society are those which fall within the competence of a multi-party Parliament. Yet, as the early Spender wrote, "the political questions which most deeply concern us are not decided by parliament at all, but by the industrial interests which control the liberal democratic state." Despite the Liberal Party's recent highly dubious flirtations with "workers' control", it remains true today that no major party in Britain challenges the assumption that the partial democracy which offers us the right to choose once in five years between Gaitskell, Grimond or MacMillan, is anything but adequate to our needs. Democracy which begins at the level of the shop floor<sup>1</sup> and permeates every aspect of national life, democracy which is lived day by day, and not indulged in spasmodically once in five years, is in our view

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<sup>1</sup>We consider that the socialist criticism of employment relations applies not only to industry, but to all forms of employment, which are equally dominated by concepts of hierarchy and authority. The reader might ask himself what influence he enjoys over the policy of his "employer", whether he works in a factory, office, shop, school, university or bank. etc.



synonymous with socialism, and implies workers' control. In fact the terms socialism, democracy, and workers' control are in this sense expressions of the same basic attitude. Until the means of production are socially owned and managed, workers' control cannot operate, and workers' control without democracy is a contradiction in terms.

The idea of workers' control has a long history in the British Labour movement, but its advocates have always failed to carry conviction because they have paid too little attention to detail, and have never been able to offer a concrete example of how such a system would work out. As Dennis Butt wrote in the *NLR* of August, 1961:

"If, to begin with, we were to ask ourselves what in present knowledge and experience, is the most glaring general deficiency in our grasp of the subject, a reasonable answer would be that we have no real understanding of a scheme of workers' control that is sufficiently comprehensive to operate over an entire industry from top to bottom, and through the whole range of activities."

We believe that such a system does operate today in Yugoslavia, and that an examination of its main features is relevant to the discussion about workers' control which is developing amongst British socialists. There is no doubt in our minds that the subject is of vital importance to our society today, and that it is tragic that the Labour movement has not yet grasped this. The TUC leaders are at present engaged in a study of their role within a planned capitalist society, and are about to look at the Swedish system of industrial relations to see whether they can create in this country something on the lines of the Scandinavian "eternal triangle" in which a respectable and responsible trade union leadership joins with employers and the state to assist in the formulation of industrial policy. There is little talk amongst them of industrial democracy, still less of socialism. It is left to the Liberals to sense the frustration of many workers at their role of hired hands, and to propose their phoney scheme for "workers' control" which is to be operated in a way which is "neither socialist nor capitalist".

Yugoslavia emerged from the Second World War bearing terrible wounds. Two million of her people had been killed. Civil war, foreign occupation, the destruction of homes, farms, livestock and means of transport, and all the social problems consequent upon these disasters, were but a part of the legacy which her new Communist leaders inherited from the past. One problem which they did not have to face, however, was the possibility that the mass of people would wish to return to the Yugoslavia of the inter-war years. The old regime was thoroughly discredited, having failed to solve any of the major social and economic problems which had arisen during the two decades of its existence. Old Yugoslavia was a peasant country, in which 75 per cent of the population earned a meagre living from farms which were too small to keep those who lived on them. Her few industries were mainly extractive, controlled by foreign capital, and run by foreign technicians. The politicians

who ran the government on behalf of the monarchy were more concerned with chauvinist bickerings between the various Yugoslav nationalities than with the welfare of their people. The Yugoslavs emerged from the war with an understandable reluctance to return to those circumstances. Their new leaders pointed the way forward to form a society which would sweep away the injustices of the past. The post-war constitution proclaimed the state ownership of the means of industrial production, distribution and exchange, but left the land in the hands of the peasant. A structure of six constituent republics and two autonomous regions was intended to cater for the national aspirations of the major ethnic groups. In fact the economic and political life of the country, closely modelled on that of the Soviet Union, was controlled by the centralized machinery of the Party. The Yugoslavs argue that such a system was inevitable in the conditions of the immediate post-war period, and that they would have changed the structure of the state in due course regardless of any external events. In fact, the decision of the Cominform in 1948 to expel the Yugoslav Party forced upon them an urgent need to re-examine their policies. When they had recovered from the shock, and had grappled with the immediate economic consequences of the disruption of trade with Eastern Europe, they began to evolve political and social theories which owed little to Soviet models. They identified Bureaucracy as the principal source of evil in Soviet society, and therefore set themselves the task of creating a constitution and social system which, by emphasizing decentralization and lay participation, would counteract bureaucratic tendencies in their own society. Three overlapping areas in which decentralization has been introduced can be distinguished. 1. The political-territorial government of the country. 2. The methods of controlling the overall direction and performance of the economy. 3. The management of the individual firm, or Enterprise. We shall describe each of these in turn, and add some comments on the role of the "socio-political bodies", such as the Trade Unions and the League of Communists, which act as the cement binding the different elements together.

The basic unit of government is the Commune, which operates over a similar area to that of the English Urban District or Borough. Its functions and structure however, are very different. Its governing body is the People's Committee, whose tasks are "to direct and secure the economic, social and cultural development of the commune and district: to consolidate and develop socialist relationships . . ." The People's Committee is composed of two Chambers of equal status—a Communal Council and a Council of Producers. The former is elected by universal suffrage of all adults within the commune, whilst the latter is composed of representatives from the Workers' Councils of the Enterprises within the Commune. As we shall see, the Commune plays an important role in the economic and social development of its area. Amongst its many sub-committees are those for the Economy, Labour Relations, Workers' Self-government, Public Utilities, Education and Culture, Public Health,



Welfare, and Social Planning. This form of organization is repeated at regional, Republican, and Federal level. The Federal Assembly, for instance, has a Federal Council representing all voters, and a Council of Producers. In addition, a vestige of the former Council of Nationalities survives in that 70 members of the Federal Council are chosen by election from the Republic Councils, and on matters concerning the special interests of the national groups, these 70 members constitute a separate Chamber of the Federal Assembly. The two Chambers together elect the Federal Executive Council, whose President is also President of the Republic. Parliamentary elections take place every four years, but there are annual elections in the Commune. The Federal bodies, in addition to foreign policy, defence, and major national questions, draw up the general lines of economic planning, but there is a wide area of decision left to the Communes acting in consultation with the Workers' Councils of the local Enterprises. At all levels, decisions are taken after a great deal of discussion in which influences are exerted both upwards and downwards through the structure. There is great flexibility in the ways in which local and national bodies work together with all kinds of statutory and voluntary institutions. This governmental structure, based on the constitutional reform of 1953, is at the present time under revision again, and it is proposed to make the Federal Council of Producers a much more significant body. This will be achieved by providing for delegate bodies representative of each separate field of employment in the country to fulfil the role of Producers' Council when legislation concerning their particular field is introduced. The principle of rotation of office will also be introduced, which provides that office holders (up to and including members of the Federal Executive) may not be re-elected after serving their term.

The relation between the Enterprise and the State is crucial for the reality of industrial democracy. At first sight, socialists who advocate both economic planning (in the interests of harmonious, efficient economic development, and the balancing of social and economic priorities) by the state, and Workers' Control of the Enterprise, are involved in a contradiction. For what becomes of the decision taking function of an elected management which is subject to detailed directions from State Planning authorities? The methods of the Yugoslav Planning system go far towards providing us with the concept of an economy which provides maximum freedom for the Enterprise within a framework of planned economic development.

The Yugoslavs claim that their system distinguishes Social from State ownership of the means of production, and that it embodies the legal notion of Social ownership. By law, the Management of the Enterprise is vested in the Workers' Council, which is immediately responsible for its custody of the Social Property to the Commune. The Enterprise may buy and sell Social capital, but the State may not—other than by normal economic methods—confiscate or otherwise obtain ownership of assets from Enterprises. Nor may the Enterprise sell the social capital in its trust to private individuals.

New Enterprises may be created out of the Investment funds of the Federal Government, or from similar funds of the Republics and Communes, by combinations of these funds, or by existing Enterprises. Groups of citizens may also found Enterprises, but in this, as in all the other cases, the system of Workers' Council and Commune affiliation must be established as soon as construction is complete and production under way.

The system of planning which seeks to guide the Enterprise into the desired national lines of development and discourage low priority investment has relied heavily upon financial methods of control. During the period of evolution of the system, from 1950 until roughly 1957-8, the Enterprise was progressively freed from direct interference in the fixing of prices, investment plans, production methods, marketing and, personal incomes. In this way, real meaning was given to the authority which the Workers' Council exercises, and economic incentive—the profit motive—was unashamedly placed in control. A market economy, in fact, was created. The instruments which the Federal government developed alongside this evolution are those in part familiar to Western post-Keynesian governments—though used with far less inhibition, and with more clearly defined and socialist priorities.

The accumulation and distribution of investment funds is the principal federal operation. A standard (15 per cent) and an "extra" (25 per cent) "income tax" are the main instruments of accumulation and are levied on the Net (corporate) Income of the Enterprise, after the deduction of operating and material costs from its Gross Receipts. (The "extra" rate is levied on Enterprises which have specially favourable market situations or which operate—as often in Slovenia—under the most technically advanced circumstances. This is one way of preventing the total benefit of advanced technology and industrialization from accruing solely to the alreday most advanced regions, as has happened for instance in Italy.) Contributions are also paid by the Enterprise to Republican and Commune Investment funds, and to Social Welfare expenditure at these levels. Interest payment on the fixed and working capital of the Enterprise (at the rate of 6 per cent) and a turnover tax, are further sources of accumulation for the Federal Investment fund. The Federal fund thus created is distributed in two ways. It may either be spent directly by the State on important new projects of appropriate size, such as hydro-electric schemes, or channelled back to the enterprises by the banking system—under the Federal Investment Bank—using a system of bidding. Enterprises are asked to submit bids for a share of the funds, which are allocated according to (a) the bank's assessment of the viability of the proposed expenditure, (b) the proportion of the total cost of the proposed investment which the Enterprise can meet from its own resources, (c) the rate of interest which the Enterprise offers, and (d) the existence of any guarantee for the repayment of the loan from a third party, usually the Commune. In the case of high and low priority industries, the Bank will attach prior conditions to loans, to encourage or discourage, as the case may be. This system is by no



means fool-proof, and some extravagant, some low priority, investment has taken place, whilst occasionally key sections have gone short of loan capital. But it is quite clearly a viable system, and the shortcomings have not prevented the Yugoslav economy from achieving during the 'fifties one of the highest rates of industrial growth in the world. The Yugoslav government has not abandoned more direct forms of intervention: price control is used for some raw materials and where there is the danger of monopoly. In recent months, there have been moves to prevent non-essential development, such as office-building, by direct decree.

By no means all investment is financed from the General and regional funds: over the years since 1950 an increasing proportion has been left in the hands of the Enterprise by reducing the rates at which Net Income is taxed away, so that now approximately 30 per cent of new Investment comes from Enterprise funds. In general therefore, it cannot be argued that the reality of Workers' Control is completely undermined by the degree or nature of state intervention. However, we must take account also of inter-industry co-ordination of enterprises, in the form of Chambers of Industry, which are an important part of the economic machinery. The Chambers, for Industry, Transport, Foreign Trade, etc., were descendants of the pre-1950 organs of state administration, but when they were re-established in 1953 they were separated from State bureaucracy, and managed by an Assembly composed of representatives of the Enterprises, and a Managing Board elected by the Assembly. Their functions were not detailed in legislation and they could concern themselves with questions of productivity, marketing, research, etc. During the last 12 months, the various chambers have been merged into a single body, the Economic Chamber, this step being part of a general move to achieve greater co-ordination of Industry and Enterprise plans. There is marked tendency in present discussions to emphasize Rationalization, Co-ordination, or what fashionable Western jargon would call pre-concerted or indicative planning. There is a general sense amongst economists, Trade Unionists, and planning officials, that the economy of small-scale, un-coordinated enterprises operating in a quasi-classical market set-up, must be superseded by larger units, fewer in number, between which effective communication of intentions and plans is possible. The Executive of the League of Communists, in July of this year, whilst urging this development, showed its awareness of the threat to the autonomy of the Enterprise. Our own view is that the range of independent decision in the hands of the Enterprise is still very great, and that if the Yugoslav system were imposed on our own economy, we should not regard our private Board of Directors as being simply the servants of state administration. The principle of representative government is preserved in the new Chamber, although obviously at a much greater distance from the shop floor, and also weakened by the tendency of Workers' Councils to elect their Directors as Chamber representatives. As the Chamber enters into direct discussion with the Federal Planning Institute, which submits plans for adoption by the Govern-

ment and Assembly, its role is an important one, which might be compared to that intended for the NEDC in this country. The professionalization of Chamber government therefore, is a suspect element at present, though the Yugoslavs might well argue that worker participation in overall planning is ensured in other ways—for instance in the Federal Council of Producers, which must approve all measures of economic planning.

The system of workers' management within the Enterprise which we go on to describe, has been in course of evolution for 12 years and we shall not attempt to enter into details of the different stages through which it has passed to reach its present form, except to distinguish those features which are older from those which are new.

The basic law of June 1950 established the Workers' Council, which is elected from and by the members of the collective by secret ballot, as the supreme management authority of the enterprise. Originally it held office for one year, but now elections are biennial. Of 153,454 members of all councils in 1960, 117,965 were manual workers, and of these skilled workers were the largest category with 62,875 members. Councils may be of any size up to 120 members, the ratio of Councillors to electors being roughly one to eight for the whole economy. The Workers' Council must elect—not necessarily from its members but from the collective—a Managing Board, the Executive Committee of the Council. In 1960, there were 50,529 members of Managing Boards, of whom 34,174 were workers, this figure including 17,718 skilled workers. Boards are usually of 10 to 12 members, and meet several times a week, whilst the full Council must meet at least once every six weeks. It is usual for Councils to meet monthly.

The Director of the Enterprise is appointed and dismissed by a special commission composed of representatives of the Workers' Council and the Commune People's Committee. Appointment follows advertisement and interview, but dismissal rests on the initiative of the Workers' Council, who may request this to the People's Committee. Failing agreement between Council and Commission, the People's Committee may order the election of a new Workers' Council. Should the new Council persist, the Director must be dismissed. This procedure is far from a formal dead letter, and turnover amongst Directors has been considerable.

Council, Board, and Director divide the functions of management between them. The Council is supremely responsible for production plans, prices, regulations for the internal administration of the firm, and the distribution of the Net Income of the Enterprise. At the two ends of the process, it must adopt the plan and approve the balance sheet. It has ultimate responsibility for discipline and the appointment and dismissal of all but the higher grades of technical and administrative staff, though these functions are often delegated to sub-committees. The Managing Board must draw up plans and balance sheets for submission to the Council, and it has also a sphere of authority in its own right, including the appointment and dismissal



of higher staff. The Director is responsible to the Council for the carrying out of the plan, and for this he is endowed with day-to-day authority and powers of direction. He is also the representative of the Community in the Enterprise, and must therefore ensure that decisions of the Council are in line with the law. He has the power to hold up decisions which he believes to be illegal, but not to delay implementation of things which he judges merely unwise.

The above outline of the formal structure is familiar to many who have studied the system or read any of the many accounts of it. The most recent innovation, which carries the process of decentralization within the enterprise to the point where direct (as opposed to representative) democracy is possible, requires more detailed consideration. Criticisms of the Councils suggesting that they were developing into self-interested elites, and failing to involve the whole collective in their decisions, were voiced frequently in the early years, and particularly at the first Congress of Workers' Councils in 1957. The evolution of Departmental Councils with powers delegated by the central Enterprise Council, was noted and approved. But the final recommendation and law which emerged in 1961 provided for the eventual creation of a management system based on Assemblies of *all* workers in a section of the Enterprise—the "Economic Unit". The Units should correspond to technical or administrative divisions of the Enterprise, should be such that a measureable job is performed in each one, and small enough to make possible real participation in decision-taking by all members. The actual form which these Units of government should take was left to each Enterprise to work out: no formula was laid down. Nor was it made specific what particular rights should be exercised by the Units, though the general principle is clear: that as much authority should be handed to the Units as is compatible with the overall control of the Enterprise by the Workers' Council. A great variety of constitutions and practices therefore makes generalization of the role of the Economic Unit very difficult.

In the most highly decentralized enterprises, the relation between Units and Council takes on the form of a kind of Collective Contract in which the Unit—the working group—retains a proportion of its contribution to total Enterprise Income, and disposes of it, in the form of minor capital developments, increased personal incomes, or welfare expenditure such as housing, recreation facilities, or education. At the farthest extreme there are instances of Units discussing and voting on a proposal to break away entirely from the parent enterprise. In another case, the *de facto*, if not the legal, relationship between the Units and the Enterprise may be one where ultimate authority lies with the Units, which decides what functions should be performed by the Council. It is quite common to find that Units have direct financial relations with each other, borrowing and lending their funds to facilitate the overall development of the Enterprise. In other Enterprises, the Units have not yet developed functions beyond the personnel field—the appointment and dismissal of workers and decisions on the total size of their work group. There is an astonishing degree of pragmatism, experiment, and variation to be

found at the present time, and with this, the Yugoslavs are generally satisfied. Slow progress in some Enterprises is certainly due to the reluctance of the central Workers' Council to surrender its rights, but in others, it is the result of genuine difficulties over the demarcation of Units, the size of departments, and the difficulties of evolving a system of cost accounting which will accurately attribute to each Unit its contribution to costs and profits, so that correct distribution of the final income to the Units can be made. In some Enterprises, the system of Departmental Councils, rather than Unit Assemblies, is still operating. In some cases, Units are small enough to function without recourse to executive and sub-committee structures, whilst in others there are 9- or 10-men committees which prepare recommendations for the full Assembly of say 50 or 70 people, and yet others have evolved sub-committees for personal income, discipline and appointments. In general, it can be said that this is a most exciting and fertile development, which goes far to meet the problem of participation in the circumstances of large-scale industry, and gives real power to the shop floor. Yugoslavs are enthusiastic about its effects upon the degree of interest, involvement, and the demand for education in economics and management, shown by workers. One scholar<sup>2</sup> gave it as his opinion that the steps taken in 1961 had given "the substance" of workers' control to the workers.

Of necessity, in a short article, certain fairly bold generalizations must be made, and we should want, if space permitted, to enter into further illustrative detail, and make qualifications. For our present purposes, however, the above must stand as a general witness to the viability and reality of a system, in which the creators of industrial wealth are exercising decision-taking powers in its disposal of an importance and range undreamt of by even the most powerful shop stewards committee or Trade Union executive in this country.

One major feature must however be given further attention: the role of the Yugoslav Trade Unions—more properly called Syndicates or Industrial Unions, since the English term is itself confusing. Quite obviously, the role of the Trade Union in circumstances such as we have described must be different from Unions in a capitalist society. Unless this proposition is examined dispassionately by social-democrats, and not rejected, as it so often is, as a communist rationalization with sinister implications, no progress can ever be made towards socialism, or out of the rut into which the social-democratic movement has fallen. We have already pointed out the implications of the present trend towards co-operation with the state and management which the TUC favours, and which has gone much further in other Western countries. Perhaps when these implications are fully appreciated, we shall have a less dogmatic response to new, socialist conceptions of the proper role of the Unions. (With this, a supreme optimist may even hope for a mitigation of the Cold War hostility which exists in the International Trade Union movement!)

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<sup>2</sup>Branko Pribicevic, author of "The Shop Stewards Movement and Workers Control in Britain, 1910-22".



The Yugoslav Trade Unions retain a protective role—they are active where individual or group victimisation is apparent. Where strikes occur, they are far more likely to castigate insensitive Directors, or deficient local union or party organization, rather than the strikers and their unofficial leaderships. But quite logically they argue that, if the system of workers' management is functioning normally, the need for a protective role is diminished accordingly, and that a strike is an absurdity when organs of direct management exist for the correction of anomalies and injustices. The function of a strike in these circumstances is to draw attention to points where the system has broken down, and as such it may have a useful function.

But the chief role of the Unions is to act as the collective representative of the workers and to interpret their interests in the wider context of the whole national social and economic programme. This means that they act and think in ways which complement the motives and role of the Workers' Councils. By maintaining a structure which reproduces the different organs of control, from the Workers' Councils, Communes, Republics, through to Federal level, they are in close touch with the points of decision-taking, and quite openly, as a legitimate function, bring to bear pressure which seeks to influence these decisions in the direction which appears to them in the best long-term and wider interests of the workers. In this role, they have powerful weapons. They are in close relationship with the Party and the Socialist Alliance which, together with direct Trade Union sponsored newspapers, control the press. Through this medium, intensive campaigns of education and propaganda are conducted. Through their sponsorship of the Workers' Universities, they influence the direction and level of trade union education in subjects related to workers' management. At the level of the enterprise, they participate in the selection of candidates for election to the Workers' Council, and the enterprise branch enters fully into the discussion which precedes important decisions by the management bodies. At Commune level, the trade unions present their views to the Council of Producers, and participate in the formulation of the economic policy of the region. This is an example, at one level, of the Trade Unions acting as the collective voice of the whole working class, often in opposition to sectional interests within it. At the Federal level, they have the right to propose legislation in the economic field, and submit drafts of such to the Federal Assembly. But former direct rights to share the process of decision-taking as a separate organ are being gradually withdrawn. The evolution of the system of personal income determination is a good example of this process. Between 1950 and 1953, the state continued to fix basic salaries and piecework norms. From 1953 to 1956, the level of the personal income fund of the Enterprise was determined by the state, but after 1957, the right to determine basic salaries was handed to the workers' council. However, during this period the Trade Unions made national-level contracts with the Chambers which limited the scope of this freedom, and further, the scales of pay agreed by the Workers' Council (within the frame of the industry contract) had to be submitted for

formal approval to the Commune Trade Union branch. From last year, even this degree of Union control has been abolished, and the bodies of management within the Enterprise are now free to determine both basic salaries and "bonuses", without reference to any industry scale or the approval of the local Trade Union. The Trade Union continues however, to exert its indirect pressure, seeking always to ensure a balance between income and productivity.

Trade Union influence is by no means cast always in the same direction. In one instance, it may be that the union throws its weight on the side of the Director against the Council, but equally common is the opposite alignment of forces. Indeed, one of the major pre-occupations of the Unions is with the Workers' Council which is inadequately appraised of its own authority, and is therefore disregarded by the Director and higher staff.

The driving force behind the introduction of the system we have described was of course, the Yugoslav Communist Party—now renamed the League of Communists. There is no doubt that in its early days the system could not have survived if the centralizing pressures operated by the party cells at all levels had not checked the development of dangerous tendencies. The Ljubljana Congress of the Party in 1958, which defined the theoretical basis of workers' management, justified the period of party dictatorship as a necessary phase in the destruction of the old order and the birth pangs of the new. They envisaged a further phase during which the party would gradually lose its administrative function and become the indirect, stimulating force within society, initiating new ideas for discussion, providing the vision of new horizons, and warning against the dangers of regression. The withering away of the Party and the State is not now regarded however, as an imminent possibility: the Party has had only recently to exert its influence forcefully to check tendencies to economic "flabbiness" and individual corruption amongst Directors. But there is no doubt that, as the Workers' Councils gain experience, and as the multiplicity of organs of self-management begin to make their presence felt, the direct influence of the party is declining. The tendency in elections to Workers' Councils, whilst retaining a strong party representation, indicates much more attention to a candidate's ability and experience, and much less to his political activity. In the early days of the system, few outside the party really understood what was being attempted, and still fewer had the training and experience to transform the ideas into reality. In recent years, the enormous growth of agencies of adult education has created a reservoir of able candidates for posts on Committees and Councils. The primary task of the network of Workers' Universities is to train possible candidates for Workers' Councils, both in the ideological and technical sense. Many other agencies are concerned in a drive to raise cultural and technical standards throughout the country. To quote a recent Yugoslav report: "If general decentralization, the development of the communes, the co-operation of the peasants in the management of the co-operatives, the co-operation of the citizens in the management of communal



institutions, the co-operation of parents in school management, etc., are to be effective, a whole system of popular education must be devoted to them." Such a system has come into existence. Its aims are frankly to create a socialist consciousness throughout the community which will permeate all aspects of national life and culture, in order to ensure the greatest possible participation of the whole working class in the building of the new society. The author of a recent UNESCO monograph has truly said that, "in view of the broad outlines of Yugoslav socialism, how can one fail to be convinced that 'never has a society been so dependent, neither absolutely nor relatively, on so many of its members'." <sup>3</sup>

It seems to us that the Yugoslav experience in building a society which provides for the worker to participate in decision-taking at all levels of political, social, economic, and cultural activity has important lessons for Western socialists. The Yugoslavs believe that as the organs of self-government become fully effective they will begin to see the fulfillment of the Marxist hope of the withering away of state authority. As yet there are large sections of the population untouched by the new ideas. The peasantry in particular have hardly begun to accept the new social order which is growing up in the industrial centres. The habits of the past die hard, and the Yugoslavs are burying not only the Old Yugoslavia, but also their more recent past. The period of centralized control of the economy under the Party's surveillance is too recent for it to have been completely forgotten, or for habits of mind developed then to have been eradicated. In addition, the long period during which Yugoslavia suffered from technical backwardness has left a still serious problem in regard to the supply of trained personnel. Nevertheless, we believe that these problems are being faced and overcome, and that Yugoslavia has many lessons for countries in similar situations in Africa and Asia, on the problem of rapid industrialization in a socialist society. But emphatically the lessons are not only for the developing countries for, as we have tried to show, they offer many pointers for the social democratic programme of the future in advanced societies. Above all, the Yugoslavs have demonstrated that the concept of Workers' Control is essentially a *political* one, which must be consistently applied at all levels of society and throughout the total range of men's social and economic activity. This breadth of vision bears no relationship to narrow ideas for reformist co-ownership, or for a handful of Trade Union nominees on Boards of Directors, which are essentially concessionary gestures designed to "improve industrial relations" *within* the existing framework of power.

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<sup>3</sup>Adult Education in Yugoslavia. M. David, UNESCO, 1962. page 29.

## PEACEFUL TRANSITION FROM SOCIALISM TO CAPITALISM?

Marxism has traditionally viewed history as essentially a one-directional process. Capitalism inevitably generates the forces which will in due course produce socialism; and socialism, once established, equally inevitably evolves toward the full classless society of communism. To be sure, this process was never thought of as smooth and continuous. The transition from capitalism to socialism would have to be a revolutionary jump, and counter-revolutionary setbacks could not be ruled out. But the fundamental direction of change was never doubted.

This traditional view has now been seriously challenged—paradoxically, by the Chinese Communists who pride themselves on the purity of their Marxist-Leninist orthodoxy. This, it seems to us, is the real meaning of Part 3 of the Chinese Communist Party's answer to the July 14, 1963, open letter of the Central Committee of the Soviet Communist Party. This part was published under the title "Is Yugoslavia a Socialist Country?" in *Peking Review*, September 27, 1963; and it deserves to be studied and analyzed much more carefully than has yet been the case. The purpose of what follows is not to provide definitive answers to the very large questions raised by the Chinese polemic but rather to call attention to the fact that they *are* very large questions and to suggest the direction in which answers can be sought.

The Chinese are not, of course, questioning the inevitability of a revolutionary jump from capitalism to socialism. In that respect they are completely in accord with classical Marxist-Leninist doctrine. What they deny is the inevitability of socialism's evolving toward communism. Yugoslavia, in their interpretation, was a socialist country in the first years after the war. The last decade and a half, however, have witnessed a "restoration" of capitalism. We shall come presently to the arguments



which they advance to support this view; here we want to stress the extremely far-reaching conclusions which they draw from it. In their own words:

The restoration of capitalism in Yugoslavia provides a new historical lesson to the international communist movement.

This lesson shows us that when the working class has seized power, struggle continues between the bourgeoisie and the proletariat, struggle for victory continues between the two roads of capitalism and socialism, and there is a danger that capitalism may be restored. Yugoslavia presents a typical example of the restoration of capitalism.

It shows us that not only is it possible for a working-class party to fall under the control of a labor aristocracy, degenerate into a bourgeois party, and become a flunkey of imperialism before it seizes power, but even after it seizes power it is possible for a working-class party to fall under the control of new bourgeois elements, degenerate into a bourgeois party, and become a flunkey of imperialism. The League of Communism of Yugoslavia typifies such degeneration.

It shows that the restoration of capitalism in a socialist country can be achieved not necessarily through a counter-revolutionary coup or armed imperialist invasion and that it can also be achieved through the degradation of the leading group in that country. The easiest way to capture a fortress is from within. Yugoslavia provides a typical case in point. . . .

The restoration of capitalism in Yugoslavia will make all Marxist-Leninists see better and enable people to realize more keenly the necessity and urgency of combating modern revisionism.

So long as imperialism exists, there is apparently no ground for saying that the danger of the restoration of capitalism in the socialist countries has been eliminated.

The leaders of the C.P.S.U. proclaim that they have already eliminated the danger of the restoration of capitalism and are building communism. But we see that in fact they are imitating Yugoslavia in every way and have taken a most dangerous road. This deeply worries and pains us.

Out of our warm love for the great Soviet Union and the great C.P.S.U., we would like sincerely to appeal to the leaders of the C.P.S.U.: Comrades and friends! Do not follow the Yugoslav road. Turn back at once. Or it will be too late! (pp. 26-27.)

Up to now, socialists have believed that the countries in the socialist camp were advancing in the right direction even if progress was often slow and the obstacles to be overcome formidable, and that the only real threat to the survival of the

system lay in a possible thermonuclear war. The Chinese now deny this in the most emphatic terms. Yugoslav experience, they say, proves that socialism is also threatened by internal degeneration leading to the restoration of capitalism. They explicitly refuse to exempt the oldest and most developed socialist country from this threat, and the inescapable logic of their reasoning is that at some time in the future China too may get caught up in this process of socialist degeneration and capitalist restoration. If the Chinese are right, capitalism, like the proverbial cat, has many lives, and socialism must be ever watchful against its rebirth.

At this point we must pause and ask whether these far-reaching, and to many no doubt startling, conclusions are really supported by what has happened in Yugoslavia during the past decade and a half. Let us examine, one by one, the arguments advanced by the Chinese to prove that Yugoslavia has reverted to capitalism.

(1) There are many "craftsmen" in Yugoslav cities who are in fact capitalists operating on a contracting and subcontracting basis. Evidence is cited from Yugoslav sources to show that some of these urban capitalists employ as many as 500 or 600 workers and receive annual incomes as high as 70 million dinars (about \$90,000). The Chinese recognize that the existence of a private capitalist sector in a socialist country for a considerable period of time is normal. "What matters," they argue, "is the kind of policy adopted by the government toward private capitalism—the policy of utilizing, restricting, transforming and eliminating it, or the policy of laissez-faire and fostering and encouraging it." (p. 15.) They accuse the Yugoslavs of following the latter course.

There can be little doubt that the Chinese are right about the existence and continued spread of this kind of semi-legal capitalist enterprise. How much importance is to be attached to it is another matter. Since the Chinese themselves do not claim any major role for it in the economy as a whole, perhaps the most reasonable conclusion is that its significance as of now must depend on how it fits into the larger picture.

(2) Officially, Yugoslav agriculture is supposed to consist of two sectors: individual peasant farming accounting for



about 85 percent of the total and a socialist sector comprising state farms and cooperatives accounting for the remaining 15 percent. According to the Chinese, this official picture is false on two counts. First, peasants are permitted to buy and rent land and to hire labor. Under these conditions, ceilings on the size of landholdings have not prevented the development of typical capitalist relations in the countryside: concentration of land and capital in the hands of a relatively small class of rich peasants on the one hand, and development of an agricultural proletariat forced to work for wages because it has no land at all or too little to provide a livelihood. Second, the socialist sector is really not socialist at all: "in fact the 'agricultural farms' are capitalist farms and the 'general agricultural cooperatives' are capitalist economic organizations engaging mainly in commerce." (p. 17.)

There can be no doubt about the reality of the polarization process in the individual peasant economy. What can be doubted is whether it has gone as far as the Chinese imply and whether it has the significance they attribute to it. The Yugoslavs themselves insist that after the break with the Cominform in 1948 they had no alternative to relying on the development of peasant agriculture for a long time to come. This made some polarization inevitable, but they believe that it has been kept under reasonable control and that the statistics on landholding and wage labor give a misleading impression. A large proportion of rural wage workers are in fact commuters to nearby industrial centers from which they get the major part of their income; that they have little land and work for wages is irrelevant to the structure of the agricultural economy. As to the second allegation, that state farms and cooperatives are in reality capitalist enterprises, the Chinese adduce no serious supporting evidence. It is our own impression, based largely on very limited personal observation and considerable questioning of Yugoslav economists (in 1957 and again in the summer of 1963), that the character of these institutions and their relations to the state on the one hand and to the individual peasants on the other are much more complicated than the Chinese seem to think. We have no pat formulas, and this is not the place for a detailed analysis: we will simply say that the

Chinese certainly haven't proved their point.

In any final evaluation of the importance of the capitalist element in Yugoslav agriculture, two further considerations have to be kept in mind. First, the industrialization of the country since the war has resulted in a sharp decline in the relative importance of agriculture which will doubtless continue for the indefinite future (the agricultural population declined from 75 percent prewar to 50 percent according to the Census of 1961). Second, the regime has by no means abandoned the long-range goal of collectivizing agriculture.

In summary: the Chinese are certainly correct that there is a substantial capitalist element in Yugoslav agriculture. However, they have not demonstrated that it is predominant or that it is growing more important relative to the economy as a whole.

(3) The inconclusive nature of their arguments about the growth of private enterprise in the cities and of capitalist relations in the countryside is implicitly recognized by the Chinese themselves when they write:

The restoration of capitalism in Yugoslavia manifests itself not only in the fact that private capitalism is spreading freely both in the cities and in the countryside. Still more important, the "public" enterprises, *which play a decisive role in the Yugoslav economy*, have degenerated. (p. 18. Emphasis added.)

Here, in the industrial and commercial sectors of the economy, we reach the heart of the matter. This is the locus of the famous Yugoslav system of decentralized decision-making within an overall framework of fiscal and financial planning. Is this system, with its emphasis on workers' councils and market competition, essentially socialist or essentially capitalist?

To begin with, two types of arguments used by the Chinese in their effort to show that the system is capitalist must be ruled out of order. It doesn't advance matters to show that the Yugoslav system deviates from the pattern of centralized planning in operation in the Soviet Union and the other socialist countries. Of course it does, and the question is precisely whether it is possible to deviate from that pattern and still remain socialist. Nor is it enlightening to emphasize that relatively free markets reproduce in Yugoslavia much that is familiar in capitalist countries. They are intended to do so, and



the question is whether a system which generates these particular economic phenomena is thereby necessarily defined as capitalist.

If we leave out of account arguments which conform to one or the other of these types, the gist of the Chinese case is conveyed by the following passages:

The Tito clique's economy of "workers' self-government" is state capitalism of a peculiar kind. . . . The means of production of the enterprises under "workers' self-government" do not belong to one or more private capitalists but to the new type of bureaucrat-comprador bourgeoisie of Yugoslavia, which includes the bureaucrats and managers and which the Tito clique represents. Usurping the name of the state, depending on U.S. imperialism, and disguising itself under the cloak of socialism, this bureaucrat-comprador bourgeoisie has robbed the working people of the property originally belonging to them. In reality, "workers' self-government" is a system of ruthless exploitation under the domination of bureaucrat-comprador capital. (p. 18.)

The enterprises under "workers' self-government" are actually in the clutches of the new bureaucrat-comprador bourgeoisie represented by the Tito clique. It controls the enterprises' property and personnel and takes away much the greater part of their income.

Through the banks the Tito clique controls the credit of the entire country and the investment funds and liquid capital of all enterprises and supervises their financial affairs.

The Tito clique plunders the income of these enterprises by various means, such as the collection of taxes and interest. According to the statistics of the "Report of the Work in 1961 by the Federal Executive Council of Yugoslavia," it took away about three quarters of the enterprises' net income in this way.

The Tito clique seizes the fruits of the people's labor which it appropriates chiefly for meeting the extravagant expenses of this clique of bureaucrats, for maintaining its reactionary rule, for strengthening the apparatus which suppresses the working people and for paying tribute to the imperialists in the form of servicing of foreign debts.

Moreover, the Tito clique controls these enterprises through their managers. The managers are nominally chosen by competition by the enterprises but are in fact appointed by the Tito clique. They are agents of the bureaucrat-comprador bourgeoisie in these enterprises. (p. 19.)

The key concept here is evidently that of the "bureaucrat-comprador bourgeoisie," a ruling class which the Chinese appear to consider both new and peculiar to Yugoslavia. Now

if we give to the terms their accustomed meanings, bureaucrats are officials and personnel of political and economic institutions in which authority is organized hierarchically, with authority running from the top down and responsibility from the bottom up. And, to quote an authoritative Chinese definition: "A comprador, in the original sense of the word, was the Chinese manager or the senior Chinese employee in a foreign commercial establishment. The compradors served foreign economic interests and, through their close connection with imperialism and foreign capital, became big capitalists in Chinese industry and commerce."\* We are not told anything about the Yugoslav variants of these types, and the only "evidence" of their ruthless exploitation of the workers is that a high percentage of the net income of enterprises goes to the state in the form of interest and taxes. One wonders where the Chinese would expect a socialist society to get funds for education, defense, capital accumulation, and so on, if not from the profits of enterprises. The "evidence" of subservience to foreign capital is no more convincing. All socialist countries have from time to time borrowed from abroad, most of them from capitalist countries when they could, without considering that this put them into bondage to imperialism. For the rest, one of the major purposes and effects of the Yugoslav reforms of the early 1950's was a drastic de-bureaucratization of both economic and political institutions.\*\* And the style of life of government officials and industrial managers, though certainly far above that of the masses, is generally quite modest by comparison to that of the upper-income classes in the capitalist world. The contrast in this respect between Yugoslavia and such countries as Mexico and Brazil which are in a comparable stage of economic development is particularly striking.

All in all, one must say that the notion that Yugoslavia today is ruled by a "bureaucrat-comprador bourgeoisie" is so lacking in factual substance or even visual plausibility that it can safely be dismissed. We shall have more to say presently

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\*Footnote 1 in Mao Tse-tung, *Analysis of the Classes in Chinese Society*, revised translation, 1962, p. 9.

\*\*On this, see Paul M. Sweezy, "The Yugoslav Experiment," *MR*, March, 1958, especially pp. 365-367.



about the Yugoslav enterprise system; for the moment it is enough to note that the Chinese attempt to establish that it is in essence capitalist is a clear failure.

(4) The next argument advanced by the Chinese to prove a capitalist restoration in Yugoslavia is that the country has become not only a "dependency of U.S. imperialism" but actually "a counter-revolutionary special detachment of U.S. imperialism." The evidence adduced in this connection has to do with Yugoslav dependence on American aid in the years since the break with the Cominform and with the country's consequent ambivalent attitude and role in international affairs. The facts, generally speaking, are not open to question and need not be reviewed here. What is not clear is why they should be thought to be incompatible with Yugoslavia's remaining a socialist country. Why can't we simply say that Yugoslavia, for not very obscure historical reasons and long before any other socialist country (including China), quarreled with the Soviet leadership and in order to survive accepted whatever aid it could get from the West. This involved paying a political price, of course, but why assume that the domestic counterpart of this price was necessarily the restoration of capitalism? If we do not make this assumption, it is clear that the acceptance of aid and the consequent adoption of a certain foreign policy prove little one way or the other about the character of the Yugoslav system. Finally, one cannot leave this subject without noting that the Chinese are, to say the least, disingenuous in omitting all mention of Yugoslav acts in the international arena which accord badly with the capitalist restoration assumption—steady and important support for the Algerian rebellion, recognition of East Germany, rapprochement with the Soviet Union and other Eastern European countries after Stalin's death, and so on.

(5) The final argument is that the dictatorship of the proletariat which was established at the end of the war has degenerated into the dictatorship of the bourgeoisie. If one accepts the theory that the Yugoslav ruling class is a bureaucrat-comprador bourgeoisie, this argument is—for a Marxist—little more than a tautology. If one rejects that theory, it is no more than an assertion which no amount of repetition can make

convincing. On the other hand, its credibility is seriously compromised when it is coupled with the claim that "the dictatorship of the bourgeoisie not only exists, but is a brutal fascist dictatorship at that." (p. 24.) When they make such wild statements, the Chinese simply prove that they are completely unfamiliar, not with fascism—they know as much about that as anyone—but with present-day Yugoslav reality.

How do the Chinese purport to explain what they take to be the restoration of capitalism in Yugoslavia? Here their line of argumentation is indeed an extraordinary one to be coming from a Marxist source. The whole process—to which, as we have seen, they attribute enormous historical importance—is accounted for by a betrayal on the part of the "Tito clique" of socialism, the interests of the Yugoslav people, and Marxism-Leninism. The motivation for this betrayal is spelled out in the following statement: "Sparing no cost, imperialism has now extended the scope of its operations and is buying over leading groups in socialist countries. . . . U.S. imperialism regards Yugoslavia as the 'bellwether' because it has set an example in this respect." (p. 26.) One would like to ask the Chinese theorists: Why should a seasoned Communist leadership which, as you yourselves say, led an heroic struggle against foreign invaders and its own ruling class, established the dictatorship of the proletariat, and began the construction of socialism—why should such a leadership suddenly turn around and sell out to imperialism? What kind of Marxism is it that explains major historical processes and events in terms of such subjective and essentially individual concepts as betrayal and sell-out?

We hope we have said enough to convince the reader that the Chinese attempt to demonstrate and explain a capitalist restoration in Yugoslavia is both unconvincing and un-Marxist—a disappointing performance from beginning to end. We hasten to add that this does not mean that their major thesis about the reversibility of the capitalism-to-socialism process is without foundation, or even that one can find no support for it from an analysis of Yugoslav experience. It simply means that the particular analysis of Yugoslav experience which the Chinese offer is too full of holes to support *any* thesis. Before



we can reach firm conclusions, we obviously need a careful Marxist analysis of the Yugoslav system. This is certainly not the place to attempt anything so ambitious, nor do we claim the competence to do it. But we do have some thoughts on the subject which may be worth taking into consideration.

It may be useful to organize these thoughts around two central propositions: (1) Yugoslavia is still a socialist country. (2) In certain important and even decisive respects, Yugoslav socialism is degenerating.

(1) Outside of agriculture, which is of diminishing relative importance in the Yugoslav economy, the basic means of production are public property of one sort or another. As a result, the society's economic surplus, instead of being at the disposal of a class of private property-owners, is effectively controlled by the state which has consistently withheld from consumption and devoted to investment an extremely high proportion of it. Not only is the amount of investment planned but also its distribution among regions and sectors of the economy. Under this system of public property and centralized planning of investment, the growth rate of the Yugoslav economy as a whole has been one of the highest in the world and within the economy the growth rates of the more backward republics have been regularly higher than those of the more advanced republics. Some of these things might happen under capitalism, at least for a while; but when they all happen together year after year, it is a pretty sure sign that we are dealing not with a capitalist but with a socialist economy.

In addition to these economic considerations, there are others of a more "subjective" kind which support the view that Yugoslavia is socialist. Anyone who travels to and around both capitalist and socialist countries can hardly escape noticing certain characteristic differences, some very obvious, others more subtle. Degrees of inequality, dress and formality/informality, the modes and uses of publicity—in these and many other areas of social life, capitalism has one style and socialism another, and an experienced observer can easily distinguish them. Judged by this criterion, Yugoslavia is obviously a socialist country: one sees neither rich people nor derelicts; one can dine in one's shirt sleeves in the best hotel in Belgrade;

there is very little consumer advertising and what there is would earn nothing but scorn from Madison Avenue; and so it goes.

(2) And yet one does not have to probe very deeply to discover qualities in Yugoslav socialism which remove it very far indeed from the kind of society which socialists have always professed to believe in and to be striving for. As long as seven years ago, after a visit to Yugoslavia, one of us observed: "The generation which fought the war of liberation and made the Yugoslav Revolution has not been successful in transmitting its enthusiasm and idealism to the youth of today. By and large, Yugoslav young people are interested in their own careers and private lives. . . ." (*MR*, March, 1958, p. 364.) There has certainly been no improvement in this respect since then; indeed one gets the impression today that the older generation itself has stopped trying to inculcate socialist ideals into the younger generation, and has somehow persuaded itself that concern with such matters is a sign of soft-headed sentimentality. What socialism needs in order to succeed is not ideals, they feel, but productivity, productivity, and more productivity. And the way to get more productivity, as any realist will tell you, is to appeal to people's self interest. And indeed this is the all-dominating economic philosophy of Yugoslavia today.

It is important to understand that what is involved here is not simply an application of the familiar principle of "from each according to his ability, to each according to his work." All socialists—or at least all Marxist socialists—recognize the necessity of basing the wage and salary system on this principle for a long time after the introduction of socialism. But traditionally they have looked upon this system of payments as a sort of unavoidable evil, a heritage from the capitalist past which cannot be dispensed with until a much higher stage of economic development has been attained and people's attitudes and aspirations (their "human nature") have been radically transformed. In the meantime, they have always taken it for granted that it would be one of the most important responsibilities of the socialist state to begin immediately to supplement material incentives by others compatible with and reflecting socialist ideals. These other incentives may range all the way from posting the names of the best workers on the factory bul-



letin board to intensive nation-wide political campaigns to fire the enthusiasm of workers for the common cause of building socialism. At the same time, the entire educational and propaganda apparatus would be used to teach a new socialist morality negating the capitalist creed of every man for himself and devil take the hindmost, and putting in its place the liberating recognition that human fulfillment and happiness can be sought only through striving to realize the ideals of solidarity and devotion to the common good.

In Yugoslavia, alas, one finds not a trace of all this. The system of material incentives is not only tolerated but extolled as the best instrument for building socialism; no signs of any attempt to make use of other, socialist incentives are in evidence; education seems to have a minimum of ideological content, which means in practice that it continues, in subtle and sometimes not so subtle ways, to propagate traditional values and morality; one looks in vain for even so small a thing as a socialist poster or slogan on a public billboard. The other side of this coin, in the lives of the people, is an almost total absorption in private affairs. People don't talk politics in either a broad or a narrow sense but about the woes and joys and hopes of everyday life. The ultimate ambition, which has official blessing since it accords so perfectly with the primacy of material incentives, is to get an apartment or house for one's own family with enough space to live in comfortably, and a small automobile for traveling into the countryside and vacationing.

When it comes to explaining how this state of affairs came into existence, we are not disposed to follow the Chinese in blaming it on a "betrayal" by the Yugoslav leadership, nor do we share their illusion that the present regime and its policies are extremely unpopular. On the contrary, it is much closer to the truth to say that in following the course they chose a decade and a half ago, Tito and his associates were bowing to popular pressure and that as a result of doing so their rule today enjoys widespread, though rarely enthusiastic, approval. This assumes, what we believe to be the case, that the harsh, Stalinist-type regime imposed on the country in the first years after the war *was* extremely unpopular and could not have

lasted long after the break with the Cominform in 1948. If Tito had attempted to keep it in force, a rebellion of the kind that broke out in Budapest eight years later would not have been long in materializing; and it is hard to doubt that, with the Russians out of the picture, the United States would have found it easy to step in and turn the affair into a full-fledged counter-revolution. Of course, no one can *know* that this is what would have happened, but at any rate it must have seemed to Tito to be a strong likelihood. His alternatives, he probably thought, were to go under or to liberalize the regime internally while seeking economic aid from the West. The only hope of saving socialism in any form lay in choosing the latter course. And once the decision had been made, it was natural that the necessity should be turned into a virtue: the makeshift system which was devised to meet a particular situation came to be regarded as the most perfect of all forms of socialism.

But why, it may be asked, did the Yugoslav leadership renounce its mission to transform the attitudes and values of people? Why did it not develop a system of socialist incentives? Why are socialist ideals so conspicuously absent from its educational and propaganda efforts? Are not these failures and omissions after all symptoms of betrayal?

The answer, it seems to us, is that the Yugoslav system as it emerged from the post-1948 reforms had its own inner logic and its own ideological requirements and that these are in complete contradiction to classical socialist goals and values. This is, of course, obvious in the case of the individual-peasant and the urban private-enterprise sectors of society. One cannot talk about socialist incentives for private commodity producers, and preaching socialist ideals to them is not likely to be any more effective than preaching Christian ideals has proved to be over the centuries. But the important thing is that *under the Yugoslav system of workers' self-management exactly the same logic applies to the decisive industrial-commercial sector.*

To understand why this is so it is necessary to have a clear idea of how this system operates. Each enterprise is in effect owned by its entire personnel, an arrangement long advocated by syndicalists and (in England) guild socialists. Management consists of an elected workers' council and a chief executive



who is, at least in theory, appointed by and responsible to the workers' council. This is why the system is known as one of workers' self-management, and it might be adopted, with or without modifications, by the socialist countries which practice centralized administrative planning without thereby changing anything fundamental in the *modus operandi* of their system. What really differentiates the Yugoslav system from theirs is not the *form of organization* of the individual economic unit but the *goals* which the units are assigned to fulfill. In the one case, a comprehensive plan is drawn up for the entire economy specifying in more or less detail the kinds and quantities of goods to be produced by the various regions, industries, and enterprises. The function of managements then becomes to fulfill and if possible overfulfill their respective parts of the plan. Both material incentives (for example, in the form of bonuses for enterprises which do specially well) and socialist incentives (for example, education in the meaning of plan fulfillment for the whole society) can be employed to stimulate the worker to put forward his best efforts.

In Yugoslavia things are very different. There, central planning is largely limited to determining the amount and allocation of investment, and it operates chiefly through the budgetary and banking systems. No targets, general or specific, are prescribed for the individual enterprises; instead, they are directed to function according to classical free-market principles, producing the kinds and quantities of goods which they believe they can sell most profitably. Each enterprise is supposed to set its own pay scales, and whatever profits are left over after payment of interest and taxes can be plowed back into the enterprise, or used for some collective purpose such as housing for the enterprise's workers, or distributed as "dividends" to the individuals concerned. The underlying assumption, of course, is that the competition of enterprises each seeking to maximize its own profits will bring about a socially optimum utilization of productive resources—that, in the language of Adam Smith, each unit while pursuing only its own interest will be led "as if by an invisible hand" to do the things that contribute most to the common interest. In this set-up, evidently, the enterprise has no concern with plan fulfillment: exactly

like its capitalist counterpart, its job is to make profits; it is judged by its success in doing so; and the workers have a direct and immediate interest in contributing to that success.

As a matter of fact, it is doubtful whether the conditions for free competition in Adam Smith's sense exist over any large part of the Yugoslav non-agricultural economy: the typical market situation is probably what economists now call oligopoly (a few sellers), with all its destructive implications for the Smithian theory. But this is not the point we now want to emphasize. The crux of the matter is that anyone who is put in a position where his aim is necessarily to make profits, and whose well-being and advancement are dependent on the extent to which he succeeds in making profits, is bound to be dominated, in both his mentality and his morality, by the logic of profit-making. And a society in which nearly everyone is put in such a position—individual peasants and craftsmen are no exceptions—is not one in which socialist ideals and values have any relevance or meaning. "Right," as Marx said, "can never be higher than the economic structure of society and the cultural development thereby determined."\*

Here, we believe, and not in any betrayals or sell-outs, is the real explanation of Yugoslavia's present condition.\*\* But at this point we inevitably meet an intriguing question: If the Yugoslav economy is dominated by profit-making and the allocation of resources is achieved largely by the laws of supply and demand, are we not really saying that we are dealing with a capitalist system? At first sight, this seems to be almost a truism. And it is not hard to collect evidence of a confirmatory

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\**Critique of the Gotha Programme*, Section I.

\*\*There are, of course, many contributory factors which would have to be dealt with in a comprehensive study. Of these, one seems to us to be of special importance, the extent to which Yugoslavia has gone all out for foreign tourist trade as a method of acquiring hard currency. In 1962, 1.3 million foreign tourists spent 17.9 million nights in Yugoslavia, an increase of 220 percent and 90 percent respectively over 1956. (*Statistical Pocketbook of Yugoslavia*, 1963, p. 79.) The United States, Britain, West Germany, France, and Italy all contribute substantially to this flood of tourists. These tourists naturally bring with them not only their money but their prejudices, ideologies, and style of living. To say that they constitute a virulent source of capitalist infection in the Yugoslav body politic is an understatement.



nature. For example, Mr. M. H. Fisher, Foreign Editor of the *Financial Times* of London (the English equivalent of the *Wall Street Journal*) paid a visit to Yugoslavia last autumn and on his return set down his impressions in his paper's issue of October 29th. Here are two brief passages:

Price competition and its effect on profit margins, the prospects in export markets, the possibility that more might have to be spent on advertising, take-over opportunities—the topics were those normally touched upon in any conversation with a managing director almost anywhere. What was startling was not what was being said but that it was being said in Yugoslavia, in an office dominated—as they all are—by the portrait of a stern-looking Marshal Tito.

Arriving in Dubrovnik, I was surprised to be approached by men who have either not forgotten or else clearly grasped the meaning of private enterprise. They offered accommodations in private houses, “so much cheaper and more pleasant than in an hotel.” . . .

For the successful enterprise the take-over is the easiest way of expanding capacity if the installation of new capacity should become difficult. The people whom the “bidding” enterprise has to convince are of course not shareholders but the workers’ council of the plant to be taken over and—depending on the size of the “victim”—either the commune, district, or even higher authority. But the inducements offered—we will put your resources to better use and thus earn higher surpluses, pay higher taxes and better wages—and the techniques employed are not so dissimilar to those in use in capitalist countries. Political lobbying and even press campaigns against an inefficient enterprise are regarded as quite normal.

There is certainly a temptation to say that such capitalistic modes of behavior could come only from a capitalist system. And yet we think this would be a mistake. It makes a difference, and a big difference, that there are no capitalists to appropriate the profits and to control the state which operates the central fiscal and financial planning apparatus. This state is dominated by men who because of the nature of their long political and revolutionary experience identify with the working class, instinctively think in socialist terms, and pursue policies which would be abhorrent to a capitalist state. They determine the uses to which a very large proportion of the society’s surplus is put, with the result, as already noted, that Yugoslav rates of

industrialization and economic growth have been among the highest in the world, with the less developed regions being specially favored. A large part of the remainder of the social surplus—that which is retained by the enterprises—is also used for worthy social purposes such as housing and supplementary income for the workers. Under these circumstances, the allocation of productive resources according to the laws of supply and demand does not produce the same injustices, irrationalities, and absurdities as it does under capitalism. The reason for this is that the structure of demand is essentially rational, as it most emphatically is not in a class-divided society, and to the extent that the structure of supply is determined by and follows that of demand it can be said that resources are being utilized rationally. (We say “to the extent that” rather than “because” for two main reasons: first, even under conditions conforming to what economists call pure competition, the adjustment of supply to demand is both imperfect and wasteful; and second, the presence of monopoly and oligopoly—undoubtedly common in Yugoslavia—introduces permanent distortions in the adjustment of supply to demand.)

The Chinese, in a passage already quoted, call the Yugoslav system “state capitalism of a peculiar kind.” On the basis of our analysis, it would seem more accurate and appropriate to call it “market socialism of a peculiar kind.” More important than what it is now, however, is what it is on the way to becoming in the future. And here one must regretfully say that the worst is to be feared.

The Achilles heel of the Yugoslav system is that it is almost certainly generating an entirely different kind of leadership from the one which brought it into being. The latter was shaped by class struggle under the old regime, the partisan war against the Nazi invaders, and the triumphant socialist revolution. The new generation which is now moving into leadership positions not only has a completely different history—that has to happen after every revolution—but its mentality and attitudes have been and are being shaped by an economic system in which the goals and incentives of the individual are indistinguishable from those of capitalism. The types produced by such an environment range from the philistine through the unprincipled



opportunist to the greedy corruptionist—all, incidentally, present in sufficiently impressive numbers from Yugoslavia's semi-capitalist, semi-feudal past. It won't be long before the old leadership will be completely replaced by one drawn from such human material.

What will happen then cannot be foretold with accuracy, of course, but reason tells us that from a socialist point of view it cannot be good. Our own guess is that a gradual evolution will take place in the dominant form of enterprise which will bring it closer and closer to the capitalist corporation. Managers, technicians, and the most highly skilled and indispensable workers will accumulate power and privileges at the expense of the mass of the workers, approaching more and more closely to the position of full-fledged owners. There are even now strong pressures in this direction which are kept in check only by the power of the leadership acting through the federal government and the League of Communists (successor to the Communist Party). The new leadership, however, will be drawn largely from those very strata which are fortifying their positions at the enterprise and commune level, and it will naturally lose interest in putting an effective brake on this drive. This weakening of the countervailing power of the leadership is already in evidence in various ways: this is probably the real meaning of the spread of semi-legal capitalism in the cities of which the Chinese make so much.

It may be objected that this diagnosis and prognosis of the Yugoslav situation leaves out of account the possible (or probable) role of the working class. Why should the workers sit meekly by while the very real advantages they gained through the revolution and still continue to enjoy under the present leadership are gradually taken away from them? Unfortunately, it is not difficult to answer this question. The Yugoslav system of "market socialism" has the perverse and at the same time disastrous effect of politically emasculating the working class. It has long been well known to socialists, and even to non-socialist trade unionists, that producers' cooperatives *under capitalism* constitute a serious threat to the coherence and solidarity of the labor movement. This is because the workers are for all intents and purposes put in the position of capitalists.

For the cooperatives to prosper, or even survive, they have to make profits in competition with ordinary capitalist enterprises. The worker-owners therefore have to behave like capitalists, and it isn't long before they begin to think like capitalists too. Fortunately for the labor movements of capitalist countries, producers' cooperatives have never amounted to much—perhaps because the workers do not find it easy to adopt the ethics and attitudes of the bosses—so the damage has never been great. But the Yugoslav system puts all the workers into producers' cooperatives seeking to maximize their profits in a free market, and it keeps them there. It is hard to believe that this enforced and prolonged adoption of essentially capitalist goals and methods can fail to have a corrosive effect on the class consciousness and combativeness of the Yugoslav workers, and it is all too easy to believe that they will be slowly, almost imperceptibly deprived of their privileges and prerogatives until they have finally been reduced to the status of proletarians in capitalist countries. Somewhere along this road, they will doubtless become aware of what is happening and move to reconstitute their own class organizations in the economic and political spheres. But by that time it will almost certainly be too late to re-inject any socialist content into what will have become essentially a capitalist institutional framework.

It may be said that our analysis comes in the end to the same conclusions as the Chinese. Not quite. We do not accept the contention that a capitalist restoration has already taken place in Yugoslavia, and in our view the trend is not toward a system of bureaucrat-comprador rule but rather toward a kind of corporate capitalism likely to resemble in many important respects the present French system which combines peasant agriculture, corporate domination in industry, and state planning in the fiscal and financial spheres. For the rest, the Chinese analysis with its emphasis on betrayals and imperialist machinations is an example of a kind of dogmatic scholasticism which never comes to grips with the real dynamics of the situation it seeks to explain and therefore quite fails to convince anyone who is not prepared to accept its conclusions on faith. Regardless of the correctness or the incorrectness of the conclusions themselves, it seems to us that it is a responsibility of serious



Marxists to adopt an uncompromisingly critical attitude toward such methods of reasoning and argumentation.

On the larger question of the reversibility of the process of transition from capitalism to socialism, our analysis supports the Chinese view: a reversion can take place without violent counter-revolution or foreign invasion. Since such a process of reversion is actually under way in Yugoslavia, the Chinese are undoubtedly right to warn other socialist countries against following the Yugoslav road. But it is desirable to make the warning more specific, to point out exactly what the Yugoslavs have done that is to be avoided and to eschew broadside condemnations of everything Yugoslav such as the Chinese tend to indulge in.

If we are right, the fatal step was taken in Yugoslavia when it was decided to restore production for profit as the prime mover of economic activity. Without the institution of private property, production for profit is not yet capitalism. But it inevitably generates capitalist mentality and capitalist morality and thereby weakens and eventually destroys the obstacles in the way of usurpation of the rights and privileges of private property by an economic elite. The lesson which every socialist should take to heart and never tire of repeating is clear: It is necessary not only to abolish private property in the means of production but also production for profit. Beware of the market; it is capitalism's secret weapon! Comprehensive planning is the heart and core of genuine socialism!

We are not suggesting that production for profit can be immediately abolished, still less that a socialist society can hope to dispense with market relations in any near future. But we are saying that production for profit must be systematically discouraged and rapidly reduced to the smallest possible compass, and that market relations must be strictly supervised and controlled lest, like a metastasizing cancer, they get out of hand and fatally undermine the health of the socialist body politic.

A corollary is that it is not, as many socialists seem to believe, the Yugoslav system of workers' self-government as such which threatens the existence of socialism in that country. It is workers' self-government *coupled with production for the market and for profit*. In a context of comprehensive planning, workers'

self-government not only has much to recommend it but even seems to us to be an inevitable step in the democratization of socialist society, to be introduced on at least an experimental scale as early as possible and to be extended as rapidly as the rising technical and educational level of the workers permits. Yugoslav experience may have many valuable lessons, both positive and negative, for other socialist countries as and when they embark upon or widen the scope of programs of workers' self-government. This, we take it, is what Khrushchev was saying when, on his visit to Yugoslavia last summer, he expressed a keen interest in the Yugoslav system of factory management and agreed to send a delegation of Soviet state and Communist Party experts to study it on the spot. We interpreted this as a good sign that the Russians are planning to move ahead with the democratization of economic life and want to learn as much as they can from Yugoslav experience. We did not see in Khrushchev's statements any indication that the Russians are thinking of retreating from their eminently successful system of comprehensive planning. Let us hope that we were right.

In this connection, a perhaps apocryphal story that has been going the rounds among economists, is probably an accurate reflector of Soviet ways of thinking. A group of Western economists is supposed to have met with a group of their counterparts from the Soviet Union to discuss their respective economic systems. The Westerners expounded the virtues and beauties of resource allocation through the market, with competitive production for profit automatically adjusting the supplies of the various goods and services to the people's needs. The Russians listened attentively to this encomium, and when it was finished they asked for an intermission so that they could compare notes and present an agreed-upon reply. When the two groups reassembled, the Russian spokesman said, "We have heard your theory with the greatest interest. The economic system which you describe is very ingenious and the results indeed most desirable. But we have come to the conclusion that it couldn't possibly work." The Westerners were surprised by this reaction and asked why their colleagues had come to such a conclusion. "Because," said the Russian spokesman, "the scheme you outline would require every manager of an enter-



prise to produce for profit, and that is against human nature."

If Soviet "common sense" has really come so far in the first half century after the Revolution, then we can probably conclude that socialism is safe and sound in its first homeland, that Chinese fears that Khrushchev will lead his country along the Yugoslav road to eventual capitalist restoration are groundless.

But this certainly doesn't mean that the advice against following in Yugoslavia's footsteps has no meaning or relevance in the world of today. The newer socialist countries, seeing Yugoslavia's rapid growth, and having troubles developing a workable comprehensive planning system of their own, may be tempted to experiment with market socialism. They should be warned in no uncertain terms that, taken in large quantities and without appropriate antidotes, it can be deadly poison.

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