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THE DEVELOPMENT AND CHARACTERISTICS OF THE SOCIAL ORGANIZATION
OF YUGOSLAV INDUSTRY

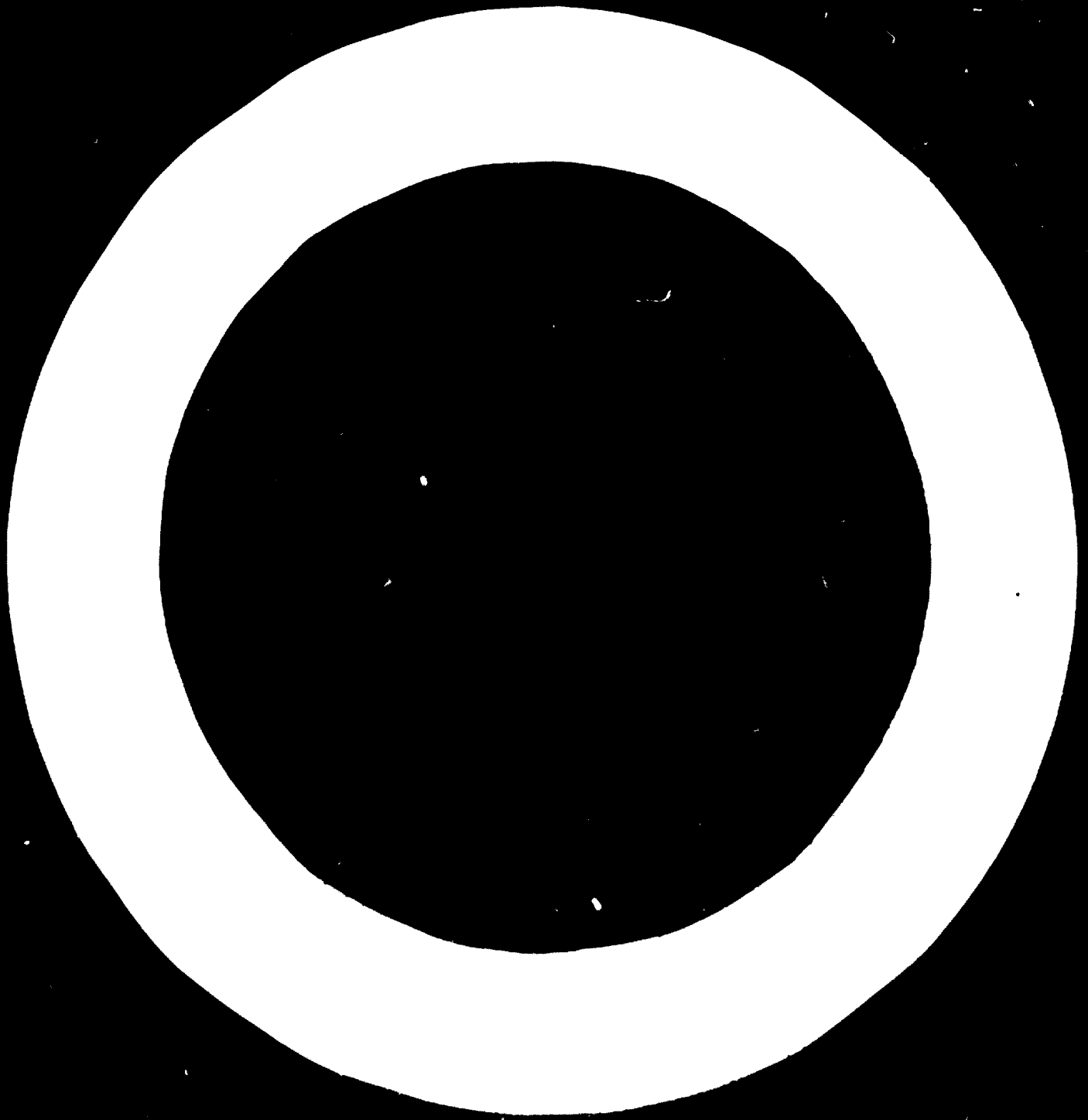
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Submitted by the Government of Yugoslavia

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1. The purpose of this study is to present the development and basic characteristics of the social organization of Yugoslav industry in the light of the function of its basic protagonists - the enterprises - in the social division of labour, i.e. differentiation and specialization, on the one hand, and co-operation and integration of production and business activities, on the other.

In other words, it is proposed to deal with the basic economic conditions in the characteristic stages of the country's social and economic development which have influenced the mutual economic, technological and organizational integration of industrial enterprises, the action and interaction of the enterprises in the circumstances, and the results and certain problems of their economics in those characteristic stages.

The characteristic stages of development of those conditions in Yugoslavia can be divided into three basic periods:

- The period of administrative management of the economy, 1947-52;

- The period of gradual destatization and development of workers' self-management, 1953-64; and

- The period subsequent to the adoption of economic reforms, characterized by the furtherance of self-management relations and the liberalization of the Yugoslav economy in relation to the world market and its inclusion in the international division of labour, from 1965 on.

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2. The most important feature of the first period, 1947-52, was that there was a central plan which regulated, directly and in detail, the whole economic life of the country, industry in the first place.

The plan determined all the elements of the operation and output of each single industrial enterprise. Each enterprise was issued with established plans by the State agencies covering output, the sale of the products, raw material supplies, manpower, and investments. The prices, too, more often than not, used to be fixed by State agencies.

The financial operations of the enterprises formed part of the State budget. The profits of enterprises were paid to the State budget and their losses also, were being offset therefrom. Extended reproduction was financed from the budget according to a detailed plan.

The material stimulation of the workers in production was based on an elaborate system of production standards and bonuses and on a minimum share of the profits which was payable to the fund of the management for rewards to the workers and office employees.

3. For the conduct of such a detailed and planned economic policy a very complicated hierarchical mechanism of federal, republican, and local State agencies had been created, classified, in the main, according to echelons and including an economic council, a planning commission, ministries, and general and central boards.

An enterprise, itself, as an economic subject, was wholly restricted in its activities.

At that stage, enterprises were integrated, by administrative means, in the general and central boards representing administrative operative management bodies exercising nearly all functions of the enterprises.

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The organization of co-operation in production followed the same pattern as that practised in classifying production and determining the specialization of existing and new established enterprises: according to the decisions of the State authorities. In the case of each enterprise, prescriptions were issued as to what to produce, up to which degree of manufacture, to whom to send the products for further processing, where the raw material supplies are to come from, etc.

The enterprises were classified, according to determined criteria, into those with a federal, republican and local function, which was giving rise to a series of problems in the matter of managerial competencies and the achievement of co-ordination in the operation of industrial enterprises.

4. The basic economic characteristic of that period was intensifying industrialization, in building up the basic branches in the first place. In industry concentration and the formation of major enterprises is pursued. However, major enterprises were created not only by constructing new plants and by the normal development of medium and small-scale enterprises into larger production units, but also, in considerable measure, by amalgamation of existing plants as a result of administrative decisions.

The process of concentration of industry in the direction of creating major enterprises proceeded very rapidly.

Notwithstanding its unquestioned achievements, on an advanced level of development administrative management of the economy was to prove itself under-efficient and a social contradiction.

Hence, already in 1950 the first outlines begin to be cast of a new economic system based on decentralization and democratization of economic management, on management of enterprises by the producers themselves, on the strengthening of local communities and on a stronger action of the market mechanism.

It is on these principles that the whole subsequent social and economic development of Yugoslavia was to be based.

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The first move along that line was the enactment of the Basic Law on Management of State Economic Enterprises and Advanced Economic Associations by the Working Collectives of 5 July 1950.

The years 1951 and 1952 marked a period of transition from administrative to workers' management. It was then that, from an organization-legal point of view, centralistic-planned and administrative management of the economy was gradually discarded. In enterprises and institutions workers' self-management is introduced and the necessary changes are effected in the representative bodies. The representative bodies in the communes and republics and on the federal level are given a new chamber - the Chamber of Producers, thereby vesting workers with the right to take an active part in and decide on all matters affecting economic policy. The State organisms are also subjected to change. The hierarchical structure of economic management is abolished and State agencies are made co-ordinating, orienting and supervisory authorities.

The end of that period was characterized by the enactment, on 13 January 1953, of the Fundamental Law on the Bases of the Social and Political Organization of the Federal People's Republic of Yugoslavia, whereby the bases for the development of new social and economic relationships were laid down in a constitutional way.

5. The social-economic development during the 1953-64 period was based on the following fundamental principles of the social and political organisation of the Federal People's Republic of Yugoslavia established by the Fundamental Law of 1953:

- Social ownership of the means of production;
- Self-management of the producers in the economy; and
- Self-government of the working people in the communes, republics, and districts.

The right of self-management of the producers in the economy was defined as-

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- the right of the workers to manage enterprises directly and through their elected bodies, with the workers' council as the top body; and
- the right of enterprises to determine independently, inter alia, their economic plans, to make independent disposals of their income after meeting their obligations towards the community, and to fix independently the personal incomes of their workers.

The legal status of enterprises was framed institutionally in accordance with the Fundamental Law of 1953 by the Decree on the Formation of Enterprises and Establishments and the Decree on the Termination of Enterprises and Establishments, which decrees have been in force, with certain amendments and supplements, since 1965, i.e. since the enactment of the Basic Law on Enterprises.

In its Article 1 the Decree on the Formation of Enterprises and Establishments defines an enterprise as "... an organization whose exclusive object of business is the permanent and independent performance of a particular economic activity."

That provided the legal presumption of an enterprise, which, from a technical-economic organizational unit incorporated in a minutely elaborated central plan of the economy before, became an independent legal and economic organism active in market conditions after the adoption of the new economic system.

In a Yugoslav enterprise, as an independent economic and legal organism, the right of self-management is derived from the productive work of the workers, who thereby create new values and make possible the enterprise's existence and operation. The holder of the right of management, then, is the working collective, which delegates some of its powers to the management bodies elected by it from among its members for the purpose.

The independence of an enterprise occurs in that its management bodies establish its plan independently, in that they manage

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the assets serving for its activity and in that they make independent dispositions of the income deriving to the enterprise from its activity.

Starting out from the basic premise of the independence of enterprises, the legal system makes it possible for enterprises, by the Decree on Association of Economic Organization (1953), to establish mutual links by forming business associations for joint performance of particular economic tasks.

The Law on Association in the Economy (1958) brought the abolition of professional associations and introduced a new form of association - the business association, which appears as a legal persons and has the legal status of agents acting in their own name for the account of the members. The latter conduct the activities of the associations through management boards constituted on the principle of one member one vote.

The Law on Association and Business Co-operation in the Economy (1960) enlarged the organizational forms of association by providing the possibility of business integrations also by way of the contract of business-technical co-operation, which enables longer-term co-operation to be contracted for in a simplified form.

The following could be cited as the basic characteristics of the said forms of integration:

- The enterprises decide independently regarding their mutual integration and the aims and forms thereof;
- Business integrations are effected on the basis of a contract whereby the contracting parties establish the modalities of their future co-operation (except in the case of amalgamation or affiliation, where it is a question of constitutional changes which were regulated by the mentioned decrees on the formation and termination of enterprises);
- Enterprises may form business integrations in the production

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process, on the market (barring integrations intended to secure a monopolist position on the market), and by combining their assets; however, in combining financial assets and in mutual financing, the enterprise which is providing the assets cannot acquire thereby the right of co-decision in the business policy of the recipient enterprise, nor may it share in the income thereof; the combining of assets narrows down to a credit relationship involving payment of interest, whose rate may not exceed that applying to bank deposits.

Thus, institutionally an enterprise was regulated as the basic cell of the economic mechanism and an independent economic and legal subject with possibilities to co-ordinate its activities with other enterprises by means of various forms of integration and business co-operation.

The transition from administrative to self-management relationships was neither easy nor simple.

Only gradually did enterprises acquire also an economic independence in their basic functions.

The operations and business policy of enterprises were considerably, sometimes decisively, influenced by measures of economic policy, particularly by way of-

- the price policy and system;
- the system of foreign trade;
- the tax system;
- the financing of business operations and development.

In the circumstances, with the success of business operations being considerably dependent on the position of enterprises in the economic system, enterprises were not sufficiently encouraged to effect rationalizations and pursue their development through mutual co-operation and integration, to practise specialization and co-operation and co-ordinate their activities in production, on the market and in financing development and operations.

As a result of the so established relationships, the basic functions of an enterprise were not sufficiently co-ordinated either. Occasionally the possibilities of obtaining supplies, of marketing and development depended more upon the instruments of economic policy than on the rationality of production and market conditions.

The business risks did not sufficiently attach to an enterprise itself, while the initiative and enterprising spirit of the self-management mechanism was being restricted.

6. As mentioned before, the development and investment initiatives of enterprises were directed by the institutional conditions, which limited the scope of enterprises in making decisions in investments and reduced their risks and responsibility in the realization of such decisions.

The investment resources, largely centralized and strongly influenced by a large development initiative of agencies other than economic, are spread over many investment makers, not according to economic criteria alone.

In the circumstances, it is coming to the development of a series of small-scale industrial plants into medium and large ones, and new capacities are built as well. In this context new products appear on a large scale in the structure of Yugoslav industry and frequently output is raised several-fold.

The diversified and more complex industrial structure was calling for a quicker and stronger mutual integration of industrial enterprises. However, the economic system did not afford all the necessary conditions for a sufficiently rapid development of the processes of business integrations on a large scale and on economic bases.

In the past period integration as an economic requisite of quickened modern industrial development was present in the country's industry as a social-political action rather than an economic

necessity.

A distinction has therefore to be made between formal (organizational-legal) and real (technological-economic) integrations.

From the organizational-legal point of view, a very rapid growth of integrations was a feature, especially after 1960. The number of business associations rose constantly beginning from 1957. In 1958 there were 17 business associations, in 1959 - 20, in 1963 - 72, and by 1966 their total had increased to 270, the membership including over 60 per cent of industrial enterprises.

A large number of contracts of business-technical co-operation were likewise concluded, and there were a considerable number of amalgamations and affiliations.

However, in a majority of cases the business integrations did not represent qualitative changes in the direction of the division of labour, vertical and horizontal integration, the co-ordination of and joint performance of particular activities.

For the most part the relationships between industrial enterprises are based on commercial links (mainly purchase and sale), such being the case even between those enterprises that are integrated in an organizational-legal way.

In the conditions of rapid growth, unstable economic conditions and a closed, autarchic, market, specialization of production is making slow progress and durable and solid co-operation relationships are established with difficulty.

7. The second period (1953-65) was characterized by a very rapid growth of industrial production -- which averaged an annual rate of increase of 12.4 per cent.

The social-economic relationships in enterprises are developed in the direction of increasing democratization of management, with emphasis on direct self-management of the producers.

The established and developed self-management in enterprises

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requires more scope in business policy than is accorded it by the economic system.

The rapid and dynamic social-economic development was making it necessary to lay down the bases of development by constitutional means and the Federal Assembly established, by the new Constitution of the Socialist Federal Republic of Yugoslavia, enacted on 7 April 1964, that, among other such rights, the workers in enterprises shall have the self-management right of deciding on the secession of a section of an enterprise to form a separate enterprise, on amalgamation and affiliation, and on integration of enterprises.

Article 15, Paragraph 1, of the Constitution defines the concept of enterprise as follows: "A working organization shall be an independent and self-management organization."

(In constitutional terminology enterprises, too, along with other independent and self-management organizations, are understood to be working organizations).

In accordance with the basic principles of the new Constitution, changes are effected in the legal and economic system.

The beginning of 1965 saw the enactment of the Basic Law on Enterprises, which, as distinct from the previous legislation, defined the status of enterprises not only from the legal aspect, but also from the social-economic one, as witness the following definition in its Article 1:

"In freely combining their work on the basis of social assets and self-management the workpeople in enterprises shall permanently organize and enlarge production, trade and other economic activities, thereby satisfying their individual and joint interests and the general social interests.

"An enterprise shall be an independent and basic working organization of the unified social and economic system of Yugoslavia."

To the existing forms of integration the Law added a new one in making provision for associated enterprises. An associated enterprise represents enterprises organized to form a new enterprise with all the management bodies that pertain to an enterprise and wherein the associated enterprises retain a considerable degree of economic independence.

The thus circumscribed status of enterprises called for further changes in the economic system in the direction of creating the material conditions for the unhindered development of integrations on the basis of the inner laws of the economy and its real needs.

8. After the economic reform (from mid-1965 onwards) the development of the social organization of industry assumes a fresh impetus. In the preceding period the economic conditions did not favour the organizing of industrial production in a rational way nor the development of specialization and division of labour on the basis of a widespread integration process.

The measures of the social and economic reform aimed at freeing economic life from excessive administrative restrictions in the more stable economic conditions, enabling a freer manifestation of economic laws and making possible a greater mobility of production factors, thereby giving a fresh impetus to the development of self-management.

Hence, the measures of the economic reform introduced changes in all the essential instruments of economic policy.

New price relations are established which, in substance, should reflect the trends on the world market, a realistic rate of exchange is fixed for the dinar, national income is redistributed in favour of enterprises, consumption is brought within realistic limits, foreign trade is liberalized, etc.

The realization of these measures - which is bound to involve a longer-term process - orients enterprises to approach the solution of their basic problems by establishing more permanent

links with domestic and foreign associates.

9. In the circumstances, the existing institutional framework for business's integrations of enterprises became too restricted.

In the preceding period enterprises could integrate in the sphere of material production and the market, while the only way concentration of financial means was practicable was through a credit relationship, which was not stimulating enough as regards investment of the available means of an enterprise which it has no way of using rationally into another enterprise.

In the conditions where the State, directly or indirectly, made disposals of and oriented the accumulation of enterprises, concentration of means was in the State, which acted as entrepreneur with such means. However, where an enterprise disposes of its accumulation in a considerably greater measure, and where economic development springs from the enterprising spirit and initiative of enterprises, it is necessary that the enterprises be concerned in concentrating their means and that they invest them, under freely made arrangements, there where they will bring the highest returns. In such a case, a freer circulation of monetary means is realized, which is immanent to the action of the goods economy. Concentration of means, as a result of direct arrangements between enterprises, postulates their interestedness.

In other words, the postulate is that an enterprises be certain that the means it invests in other enterprises or deposits in banks will remain under a certain control of its, in case they constitute a part of the production base of the enterprise and serve to secure particular returns thereto.

The concentration of financial means on such principles was partly rendered possible, through the banking mechanism, by the new Law on Banks (1965).

In the process of destatisation of the economy also the function of banks had been experiencing changes, so that from executors

of the decisions of the technical apparatus of the State in the sphere of financing and financial policy the banks became independent business partners of the economy and its organic part.

The mentioned Law on Banks brought a great and far-reaching revision of the banking system.

It gave a possibility to enterprises to found banks, thus granting them a right only the State authorities, respectively social-political bodies, enjoyed before.

The business policy of banks is determined by the founders, who are also entitled to share in a part of the income of the banks, the extent of the founders' influence on the business policy and of their share in a part of the income being commensurate to the size of their investment.

The territorial principle in relation to banks is discarded and each bank is free to operate in the whole country.

These changes gave the economy a considerably increased influence on the circulation of financial means and on their rational investment and encouraged the enterprises' interest in concentration of means.

The changes in the banking system per se still do not make possible a direct flow of "capital" from one enterprise to another in the sense that the enterprise which invests in another enterprise also acquires, by virtue of the means invested, the right to share in the income and management of the latter. Without the right to share in the income and management of an enterprise in which it is invested it seems difficult to encourage enterprises with the available means to place these in the most rational way - in a production from which the most favourable returns can be expected.

It is, therefore, now being proceeded to the establishment of such institutional conditions as will entitle an enterprise to invest its means directly in another enterprise or to form a new enterprise, thereby acquiring the right to influence the business

policy of and share in the income of the enterprise invested in commensurately to the size of the investment made. At the same time, the investor enterprise incurs a part of the risks and responsibilities as respects the operation of the enterprise invested in.

The measures of the economic reform have created the necessary conditions in the economic system for a quickened and more efficient progress of concentration processes, while through the institution of joint investment making enterprises are afforded possibilities for linking all their functions and realizing a successful integration of their interests by that means.

It is nearly two years since the coming into force of the measures of the economic reform. Although that is a relatively short period, it is already possible to note the positive effects of the measures, and the development trends indicate that the desired goals may be expected to be reached.

10. Through the economic reform the Yugoslav economy has become open in considerable measure in relation to the world market.

However, an open economy does not imply only an extension of the exchange of goods and services, but also the liberalization of the foreign trade system. Links with the world economy are realized by way of a freer and more direct movement both of people, and capital, and technical developments.

Consequently, in this phase of our development it is increasingly becoming the task of economic policy to establish the ways in which the general aims of Yugoslavia's social and economic development will be attained in a quicker and more successful way by co-ordinating the internal economic movements with the general development trends in the world.

One can say that in the past period Yugoslavia has had developed economic relations with foreign countries.

Thus, also in the sphere of financing business operations and

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development the crediting of domestic enterprises with means from abroad, in the near-invariable presence of the intervention of State agencies, has been practised on a fairly extensive scale. However, those practices have shown a series of failings. To begin with, by virtue of the regular application of guarantees by the State, foreign creditors were unconcerned about the efficient and profitable use of such means. Besides, frequently the loans were very costly, entailing a further burdening of the enterprises. By themselves, without the necessary technical and commercial assistance, the financial means could not, the best intentions notwithstanding, produce the same effects as those that would be attainable through integrated co-operation.

Furthermore, for the purpose of their quickened development, Yugoslav enterprises have made considerable use of foreign technical and technological developments on the basis of numerous contracts of licence, technical documentation and other forms of industrial property. In this way, a series of new productions were soon developed, making an unquestioned contribution for the rapid industrialization of the whole country.

However, the acquisition of technical know-how and progress by means of incidental purchases and not through a continuous process has considerable problems inherent in it which often render the justification of such undertakings questionable. Thus, for competitive considerations, sellers of industrial property frequently were not interested in the successful production and development of the articles on which an enterprise had acquired industrial property. It often came to pass that outlived technical and technological solutions were assigned, or solutions soon to become outlived, without at the same time ensuring the follow-up developments in connection with the products involved, either because the seller had no such intentions or because the Yugoslav enterprise lacked the production and development potential to perfect the product technically and technologically.

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Such experiences, and similar ones, led to the realization that a real and permanent co-operation with foreign associates would best be achieved through a simultaneous integration in the sphere of production, the market, and financing, given that such co-operation directly links all the associates both in advancing the operations and in sharing the business risks.

Hence, besides the institution of joint investment making by Yugoslav enterprises, preparations are also going on to introduce possibilities in the Yugoslav economic system for joint investments by domestic and foreign associates. By enlarging the possibilities for joint investments, so that also foreign associates can participate in them, Yugoslav enterprises are afforded an opportunity for direct co-operation with any foreign firm on the basis of contract. The limitations which are proposed in connection with co-operation with foreign associates should present no obstacle if the co-operation is carried on on a basis of equality and if the principles of the social and economic system of Yugoslavia are respected.

The motives for production-financial co-operation between domestic and foreign associates will never be identical, but complementary (which will add a particular attraction to the linking together in certain cases), and their common interests will enable the establishment of more permanent and solid business relations.

With the institution of joint investments between domestic associates and between them and foreign associates the institutional framework of business integrations is made complete, to give a consistent system which will enable a more direct inclusion in the international division of labour, a more rational production, more successful operations, a quicker development and the full assertion of self-management.



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THE DEVELOPMENT AND CHARACTERISTICS OF THE SOCIAL ORGANIZATION
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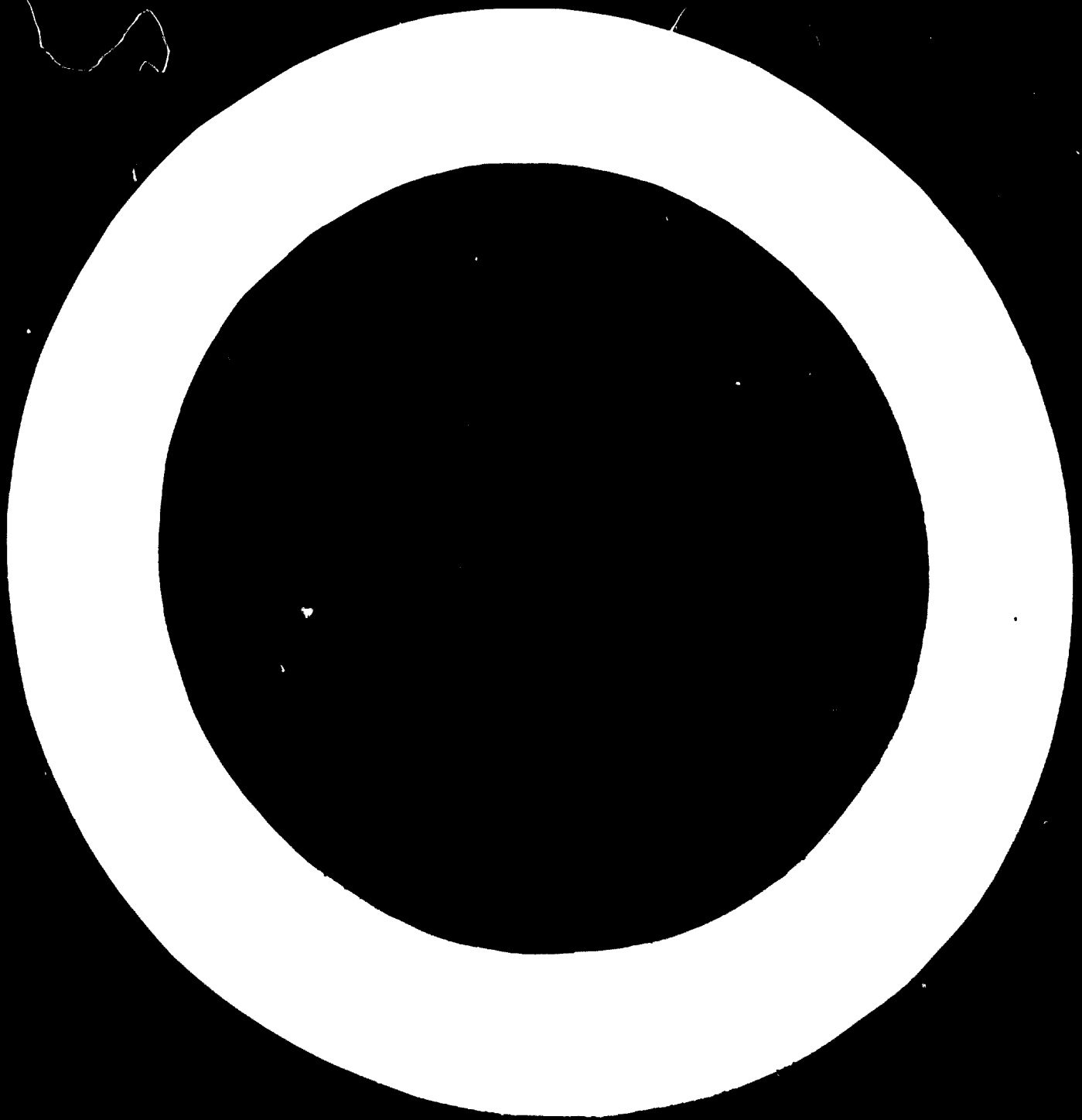
SUMMARY

by

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Submitted by the Government of Yugoslavia

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1. The author reviews the basic conditions of Yugoslavia's social and economic development which have influenced the mutual economic, technological and organizational integration of industrial enterprises, then examines the external manifestations of such interdependent actions and lastly, points out the results and problems of the social organization of industry in the several stages it has experienced.
2. The first stage, 1946-1952, covered the period of administrative management of the economy. The most salient feature of this period was the existence of a central plan regulating directly and in detail, the whole economic life of the country and, primarily in view of its exceptional importance, its industry. The specialization and organized co-operation of industries is decided by the State authorities, and co-operation is also organized by administrative means.
3. The second stage, 1953-1965, was distinguished by a gradual de-statization and by the strengthening of workers' self-management participation, attended by the promotion of a freer exchange on the basis of self-management and distribution according to the working results.

Upon the abolition of the State operational and direct conduct of enterprises, the latter assumed, as autonomous organizations, the initiative and responsibility for their integration, co-operation and specialization towards the rationalization of production and operations.

However, throughout the 1953-1965 period these enterprises remained under the strong influence of the State in respect of their basic marketing functions and as regards the financing of their operations and development. Under such conditions, with their material strength often depending upon their status in the system rather than upon rationalizations in production and operation, the enterprises were lacking in motivation. Hence the absence in this period of a major economic impact of integration and co-operation of Yugoslav industry.

4. In the third stage, beginning in 1965, economic and social reforms are adopted to create more stable conditions in the system so as to encourage industrial enterprises to intensify production. The reform measures make possible the operation of industrial enterprises as autonomous economic units both in the home market and in markets abroad.

Through these processes the social conditions necessary for the development of all forms of integration and linking-together of industrial development have been created.





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