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YUGOSLAVIA AFTER TITO

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## INTRODUCTION

Josip Broz-Tito died on May 4, 1980. He was the first and only leader of post-war Yugoslavia, and, in the opinion of many, was the only real "Yugoslav." Universally respected both within Yugoslavia and without, Tito was widely regarded as the glue which held the country's many, often warring nationalities together.

After Tito, what would happen? He left no apparent successor who could play his unique role in holding the country together, and it was not at all certain that the clumsy political institutions he created--especially the Swiss-style presidency, the executive of which is rotated among representatives from the constituent nationalities on a yearly basis--were up to the task.

Most observers of Yugoslav affairs granted that there would be no crisis in the short term. Like Lenin in the Soviet Union, Tito would be present in spirit and would provide the leadership with a symbol which could be used to dampen national rivalries and paper over economic, social, and political problems. Most expected the crisis to come in two to five years as immediate memories of Tito faded and his name lost its evocative power.

The test of the post-Tito leadership appears to have come early, first with a bout of market shortages, and then with the major riots in the autonomous province of Kosovo which is populated mainly by the Albanian minority.

The brief essays in this occasional paper formed the basis for discussion at the day-long conference on post-Tito Yugoslavia held at the Woodrow Wilson Center's Kennan Institute for Advanced Russian Studies on October 22, 1981. The purpose of the conference was to assess the political, social and economic situation in Yugoslavia a year and a half after Tito's death and, to the extent possible, use this information to anticipate future developments.

The conference brought a large number of experts on Yugoslavia together with Washington-based U.S. Government officials who develop policy and manage programs in that country. Seven academic and government specialists presented remarks on aspects of the domestic scene and examined implications for internal and foreign policy. The conference was cosponsored by the U.S. International Communication Agency, the Department of State, and the Kennan Institute. None of the opinions expressed in the following papers or in this introduction should be construed to represent the views or policies of the U.S. Government.

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INTRODUCTION

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After Tito, what would happen? He left no apparent successor who could play the unique role in holding the country together, and it was not at all certain that the many political factions he created--especially the party-style presidencies, the executive of which included many representatives from the constituent nationalities on a parity basis--were up to the task.

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The task of the post-Tito leadership appears to have come early, first with a bout of market shortages, and then with the major rift in the endorsement government of Kosovo which is popularly known as the Albanian minority.

The present essay is this conceptual paper based on the basis for discussion at the day-long conference on post-Tito Yugoslavia held at the Western Union Center's Center Institute for Advanced Studies Studies on October 12, 1981. The purpose of the conference was to assess the political, social and economic situation in Yugoslavia a year and a half after Tito's death and, to the extent possible, use this information to anticipate future developments.

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Yugoslavia After Tito:  
Some General Observations

by

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Almost a year and a half passed since Tito's death, and it is time to make our first assessments of the post-Tito period, to ask ourselves--not for the first time--"whither Yugoslavia." My remarks will be directed in part toward developments during the past sixteen months, and in part toward what the future may hold for Yugoslavia. There is no effort here to be systematic; and indeed, given the present situation in Yugoslavia, it would be a mistake to attempt a definitive analysis of conditions in the country.

If I were to sum up recent events, I would say that in a relatively short period of time Yugoslavia has suffered a series of setbacks more serious than experienced under Tito, but that the crises most feared--an open struggle for power, or some form of Soviet intervention--have not only not come to pass, but seem less likely now than a year and a half ago. The riots in Kosovo in March and April of 1981 have brought into sharp focus the volatility of ethnic relations in Yugoslavia. The economic situation has deteriorated. As a consequence of these facts, there has been a sharp change in the mood of the political leadership, from one of cautious optimism at the beginning of the year to uncertainty and even pessimism by summer. It is a mood I witnessed myself in Belgrade in July, and which I assume continues as 1981 draws to an end.<sup>1</sup> Under Tito, Yugoslavia seemed to lead a charmed life. Now, it appears, the spell has been lifted. A year ago, discussion of the country's problems and

vulnerabilities was still largely academic. Today we are speaking of the same problems, but in far more concrete terms: of hundreds killed in communal rioting; of a standard of living that may have fallen as much as 7% in the past year (although my own knowledge of the skill of the Yugoslavs in adapting to economic difficulties makes me suspect this figure); and of a per capital foreign debt which now exceeds that of Poland.

I do not wish to dwell solely on these difficulties, however, lest we lose sight of other important issues connected with the functioning of the Yugoslav system in the post-Tito period. One of these is the question of decision-making. You may remember that it was widely feared before Tito's death that the system, with its stress on "harmonization of views," would prove unworkable in his absence. But, as far as I can tell, there has been no dramatic breakdown of the decision-making process in Yugoslavia. The record is one of muddling through, with long delays in the passage of critical legislation still the rule. The recent quarrel between Serbia and Vojvodina over the 1981-1985 social plan for Serbia illustrates this not unfamiliar pattern. Until late June, it appeared that Serbia and Vojvodina were on a collision course over the plan and that it could only be approved if the Serbian national assembly acted unilaterally to adopt it, under Article 320 of the Serbian constitution.<sup>2</sup> Two amendments incorporating the point of view of the province were submitted at the last moment, avoiding this outcome.

At the same time, the system of the harmonization of views, especially as it operated at the federal level, remains cumbersome, potentially divisive, and deadlock prone. Some reports have spoken of the growing intrusion of the State Presidency into the affairs of the federal government and assembly, suggesting that these two bodies find it increasingly difficult to act. This is borne out by a letter of the Presidency to the federal assembly published



in July, which spoke with great urgency of the importance of improving decision making in the latter body.<sup>3</sup> If, indeed, the decision-making process is not functioning as it should, evidence of this fact can be expected to become more obvious in the months ahead; in the use of extraordinary procedures to assure passage of legislation by the State Presidency; and in delays in formulating and adopting badly needed reforms in the system of self-management and the economy. We shall return to both of these very important problems later in the discussion.

Let us now turn to the national question and the riots in Kosovo, which have shaken the Yugoslav leadership like no other event in recent times. At the height of the riots on April 1, a crowd estimated at 10,000 persons gathered before party headquarters in Pristina. The demonstrators demanded republic status for Kosovo, but the real mood of the crowd, it is safe to assume, was anti-Yugoslav and pro-Albania. Official Yugoslav figures have set the dead at nine, with 261 injured. This figure is certainly too low.<sup>4</sup>

These events have led to unprecedented tensions in Kosova--within the Albanian population, between the Albanians and the Serb minority,<sup>5</sup> and in the Party leadership, especially its Albanian contingent. It should be added that the security forces in the area are not immune to these tensions. Duty in Kosovo has been a difficult experience for security personnel drawn from other parts of Yugoslavia and has resulted in psychological problems among many of those involved. As of August 1981, a state of martial law remained in effect in Kosovo and foreigners were not permitted into the region. In August and September there were almost daily reports in the European press of trials of participants in the demonstrations.<sup>6</sup>

The demonstrations in Kosovo have also raised doubts about the Yugoslav leadership, which now appears far less self-confident than a year ago.



Evidence of this can be seen in the manner in which government and Party spokesmen put forth first one reason, then another, for the riots, and claimed to have been taken by surprise by what had occurred--a very surprising admission in light of the well-known problems that have for years been associated with the presence of the Albanians in Kosovo, the underdeveloped character of the province, and demands for republic status. Perhaps more disturbing in the long run, the leadership in Serbia has been willing to tolerate a Serbian nationalist backlash against the Albanians, a problem about which more will be said shortly. Finally, the measures which have been proposed so far to deal with the situation--substituting Serbian for Albanian textbooks, for example--appear short-sighted and reminiscent of the policies pursued in pre-1966 period, when Serb domination of Kosovo was deeply resented by the Albanian population.

As we are all well aware, the riots in Kosovo have also led to a rapid deterioration in Yugoslav-Albanian relations. While the Albanian leadership has provoked this change with emotional statements in support of the demonstrators and attacks on the Yugoslav (and especially Serbian) leadership, the equally emotional reactions by the Yugoslavs to Albanian charges have contributed greatly to the current tensions between the two countries. Yugoslav charges that the riots were instigated by outside forces--namely the Albanian regime in Tirana--appear without foundation and complicate the problem of normalizing relations with Albania. It appears likely that any acts of terrorism in the province, if publicly admitted, will be linked to Albania, further exacerbating relations between the two countries.

It is perhaps useful at this point to consider "what might have been" had Tito still been alive at the time of the demonstrations. In the past Tito had been successful in controlling nationalist outbreaks by dealing harshly with demonstrators and extremists, while showing a willingness to grant concessions

and meet national grievances in the aftermath of signs of serious national discontent. A "Titoist" solution to the Kosovo crisis would then involve the predictably severe treatment of the rioters combined with some further steps toward republic status for Kosovo. Indeed, at one point in the 1960's Tito is supposed to have favored republic status for Kosovo, but did not push the matter when faced with Serb opposition.

My own feeling is that the Titoist solution to the Kosovo problem was never a viable one in the light of Serbian opposition to republic status for the province, but that had Tito been alive, there would have been less consternation when faced with a Serb backlash, and perhaps more restraint in Tirana in attacking Yugoslavia for her treatment of the Albanians in Kosovo. Whether this would have helped in the search for a solution to the crisis is anyone's guess.

In connection with Kosovo, I would also like to say a word or two about the views of the Albanian leadership in the province. I suspect they saw the issue of republic status for Kosovo in the context of a situation in which they hoped some day to be in a position to influence events in Albania itself, perhaps by swinging Albania toward a Yugoslav type of socialism in the post-Enver Hoxha period. Seen in this light, republic status for the province would have been a step toward bringing Albania within the Yugoslav sphere of influence. Unfortunately, the Albania leaders in Kosovo allowed themselves too many privileges and as a consequence became isolated from their own people. Partly as a reaction to this, the mass of the students, teachers and workers involved in the demonstrations were ideologically committed to Albanian-inspired, radical Marxist doctrines, not to the principles of self-management socialism espoused in Yugoslavia. Whether republic status for the province and real economic progress would have eventually won the students and their



followers over to the position of the provincial party leadership is something we shall never know. In the event, the Albanian leadership contingent in the LCY is now without a following, useful mainly as an instrument of what appears to be a permanent army of occupation in Kosovo.

When I was in Belgrade in July, and briefly witnessed the strength of the Serbian backlash,<sup>7</sup> I was struck not so much by the anger felt toward the Albanians (dislike of the Albanians is after all a longstanding feature of Serb nationalism) but by the simplicity of outlook, and the recklessness of spirit, which characterized Serb discussions of what is after all a very complex problem. As we have noted, nothing much has been done to discourage these views by the press or television, which has made the Albanians appear almost totally at fault for the crisis.

Serb nationalism, triggered by the events in Kosovo, poses a serious problem to the Serb Party leadership, which must decide at some point whether to take steps against it. This decision will not be easy, since it is the Serbs who will be primarily responsible for maintaining law and order in Kosovo in the future. The situation is made more complicated by the fact that many Serbs are convinced that in recent years Tito neglected Serb interests, and that the riots in Kosovo prove the shortsightedness of this policy. I was told, but could not verify, that this view found expression in a remark by Lazar Kolishevski,<sup>8</sup> that the policy of "a weak Serbia means a strong Yugoslavia"--that policy which it is felt Tito pursued--has not been abandoned.

Have the riots in Kosovo seriously undermined Yugoslav unity? Keeping in mind the profound difficulties that Yugoslavia now faces in dealing with her Albanian minority, it should be remembered that the key to the national problem lies elsewhere; namely in relations between the Serbs, Croats and Slovenes and between the developed and lesser-developed republics. While

critical of the Serbs for failing to accept more responsibility for the rioting in Kosovo, the other republic leaders are either not basically concerned with the rights of the Albanian minority, or supportive of the Serb position. Without real friends, the Albanian minority in Yugoslavia has, indeed, had no where to turn but Albania. The leadership in Croatia is showing concern over the Serb reaction to events in Kosovo but is undoubtedly also aware that the Serb position against republic status for Kosovo serves as a useful precedent for Croatia in dealings with her own Serb minority.

In respect to differences between the developed and less developed republics, it is not without interest that it is the Slovenes who have taken the lead in pointing to internal factors--presumably economic--as one cause of the riots. While this position may seem contrary to the long-standing opposition of the Slovenes to high levels of aid to the less developed republics, the force of the Slovenes' argument has been directed toward the failure of Kosovo to use her aid properly, rather than stressing the insufficient levels of aid to the province. Without wishing to appear too cynical, I suspect that there will be no great enthusiasm for increasing the level of aid to Kosovo in the future, while the Slovenian call for accountability will, in the case of Kosovo, find a receptive ear in other republics. Thus, the events in Kosovo will probably not do anything to worsen north-south relations in Yugoslavia unless, contrary to my suspicions, a new massive aid program for Kosovo is decided upon.



## II

In the remainder of my paper, I would like to shift my focus somewhat and speak in general terms about the problems Yugoslavia faces in the months and years ahead. It is the state of the economy, I am sure you agree, that is the cause of most concern. I feel confident that the Yugoslavs will accept in the future, as they have in the past, short-term austerity measures meant to improve their economic situation. This gives the government more flexibility in approaching economic problems than the other Communist regimes in Eastern Europe, unaccustomed as they are to inflation and other economic shocks. The problem remains, however, whether short-term measure will suffice to avoid a long and drawn-out economic crisis in Yugoslavia. If not, then it may be necessary to begin a new round of basic reforms in Yugoslavia, aimed at the banking and credit system, laws governing foreign investments, and self-management practices embodied in the notorious "ZUR" (Law on Associated Labor). Carrying out such reforms will be a test of the present method of decision-making, for republic interests will be seriously affected, and there will be a great temptation to avoid exacerbating republic relations by putting off reforms. Without basic reforms in existing institutions and practices, however, Yugoslavia may find itself in serious difficulties in the years ahead.

From the economy we may move to the question of leadership. Unity among the leadership elites in Yugoslavia has been, up until now, an essential precondition for the stability of the system. The danger of a succession crisis now seems past, and collective leadership firmly established, removing one threat to leadership unity. For reasons I have briefly alluded to earlier, the situation in Kosovo, while it is bound to lead to differences of opinion over what course of action to take in the aftermath of the crisis, need not lead to a major leadership confrontation.

Nevertheless, one can see, in the present situation, elements of potential leadership conflict. For one thing, certain conditions exist conducive to the emergence of a Serb nationalist movement analagous to that which arose in Croatia in the period 1969-1971. It does not take any great imagination to grasp what the effect of such a development would be on leadership cohesiveness. Second, repeated reliance on extraordinary measures to get legislation through the federal assembly could create a situation in which the State Presidency finds itself under increasing criticism, leading to differences among the Presidency members. Finally, factionalism at any level, including that of the republic parties, could undermine leadership unity.

There is no sure way of predicting what course Serb nationalism will take in the future, but I think the odds are against the emergence of this sort of Serb nationalist movement. Feelings of frustration, resulting in nationalistic outbursts, are more typical of Croatia than Serbia. Nor would such a movement find a warm reception among Serb Communists outside Serbia, especially in the case of Bosnia-Hercegovina, because of its multi-national character. Here, a well-entrenched and influential party leadership made up of Serbs, Croats and Moslems has already shown its willingness to clamp down on Serb nationalism.

I am less sure about the future of the State Presidency, and whether it can insulate itself against the divisive pressures it will face, especially after the present membership retires in 1984. The problem of factional warfare within the party is a complicated one, but I suspect that the Serb party is particularly vulnerable to factionalism at the present; on the one hand its leadership is being criticized for its handling of the Kosovo crisis; on the other, rekindled Serb nationalism, which probably appeals to many rank and file Party members in Serbia, provides a plank on which an ambitious and aspiring party leader might build a following.



What is obvious is that the post-Tito leadership, although still united on basic issues, is less secure and confident than a year ago. Should we read some broader significance into this? Was this seemingly well-established and confident group much more dependent on Tito--and much less able to fend for itself--than we thought a year ago? In effect, we are asking if the present leaders in Yugoslavia are of sufficient stature to cope with the many problems which have been thrust upon them.

It is interesting to note that even before Tito's death some observers had expressed doubts concerning the calibre of Yugoslavia's leaders. An article appearing in the Economist of February 16, 1980, called the present leaders "men without political roots," owing their positions to Tito's favor. The commentary went on to suggest that under present conditions of austerity in Yugoslavia, "agreement among them will not be easy," and that

a government in Belgrade which felt that it was losing its hold on the country--or one faction in the government if it felt that its rivals were carrying liberalization too far in an attempt to maintain a federal consensus--might look to Moscow for support.

I, for one, think this is a misreading of the situation, and that the Yugoslav leadership, while not uniformly capable, has shown an ability to turn to its more able members when the need arises. If Stane Dolanc is the man chosen for that role, as seems to be the case at the moment, there is little danger that a deepening crisis will produce a swing in the direction of the Soviet Union. On the other hand, it cannot be gainsaid that those who have had doubts about the quality of the Yugoslav leadership have more ammunition in support of their position now than a year ago.

In closing, I would like to maintain that it would be a mistake to underestimate the cohesiveness of the Yugoslav system and its chances for survival. If tested, as it well may be, I believe it can withstand a great



deal of internal strife. It is a state which is not unaccustomed to conflict and crisis and not untutored in ways of surviving such situations.

It should be added that the system built in the Titoist period has underlying elements of cohesiveness, thanks to its institutional complexity and vigour, which should permit one institution to take over if another fails. The regime is not monolithic like those in the Soviet Union or in Eastern Europe, and thus vulnerable to popular explosions of discontent or rapid changes in direction as a result of leadership struggles. Nor does the system rest on charismatic or personalistic leadership, as do many states in the Third World.

These remarks are not meant to inject a false note of optimism into the discussion. On the contrary, the basic point is that in all likelihood we shall see a much higher level of conflict and instability in Yugoslavia in the future than in the past. The danger lies in assuming that Yugoslavia is on the verge of breaking up the moment such conflict becomes apparent. If the two Great Powers were to make the same mistake, and begin to plot moves against one another at the first sign of serious conflict within the country, Yugoslavia's position could become perilous indeed.

Those of us who have observed Yugoslavia over a period of years hope that the underlying toughness of the Yugoslavs will enable them to endure and overcome their difficulties. At the same time I cannot disguise a sense of unease pertaining to the tenacity of national feelings among the Yugoslavs. The potential for serious conflict among these rival nationalisms does not seem to have diminished appreciably during the 35 years of peace and prosperity which marked the Tito era. I cannot rule out in my own mind the possibility that these emotions will burst forth, maybe without warning, however much I would like to think otherwise. This is the lesson of Kosovo. We all knew something

like the riots of March and April could take place. We all were nevertheless taken aback by their intensity and the Serb reaction to them. While I have tried to argue that these events need not jeopardize Yugoslav unity, I feel that we would be remiss if we did not appreciate the warning that they provide.

NOTES

1. Unfortunately I have not had the occasion, as some in the audience, to speak to the distinguished group of Yugoslav scholars that was visiting the United States last week. Undoubtedly they had much to say on this question of the mood in political circles in Yugoslavia at the present time.
2. Article 320 of the Serbian constitution permits the Serbian assembly to pass laws for the entire republic, including the provinces of Vojvodina and Kosovo--after first obtaining the views of the provinces. Through usage and tradition, this need for consultation has been turned into a requirement to gain provincial approval for legislation. Passage of the social plan without gaining Vojvodina's approval would have broken this tradition, and struck a blow at the concept of "harmonization" (usaglasavanje) of views.
3. Politika, June 27, 1981.
4. See RFE RAD BR/126 6 May 1981, for the official casualty count. Der Spiegel, April 13, 1981, p. 150 gave the report of an Albanian gastarbeiter who "swore on the Koran" that there were 235 dead, 2,553 wounded. More credible is the report of this same individual that he saw police open fire on children in the vicinity of the old market in Kosovo Mitrovica. The Albanian newspaper Bashkimi claimed that 308 died in the riots.
5. According to the preliminary reports of the 1980 census, there are now 1.2 million Albanians in Kosovo (77.5% of the population of the province). The number of Serbs has dropped to 209,000, or 13.2%. Approximately one-third of all ethnic Albanians are to be found in Yugoslavia, the remainder, in Albania.
6. See Neue Zürcher Zeitung Aug. 10, Aug. 14, Aug. 20, Aug. 21, Aug. 22, Aug. 27, Sept. 2, Sept. 6-7.
7. On the Serbian backlash, see Elizabeth Pound's excellent article in the Christian Science Monitor, August 5, 1981.
8. Kolisevski is a leader of the Macedonian party but has long been associated with the Serb party leadership.





The Party in the Post-Tito Period

by

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Since the death of Tito, the Party in Yugoslavia has been caught in a dilemma: On one hand, it is committed to the further "democratization" of inner-party life and wider politics through implementation of the principles of collective rule advanced by Tito during the last active year of his life. On the other hand, mounting economic problems have compelled it to move toward the establishment of greater discipline within its own ranks and the assertion of greater authority over society in an effort to end conflicts over policies intended to solve these problems and ensure their implementation. Yet actions designed to fulfill the commitment to collective rule seem likely to undermine the ability of the Party to establish discipline, resolve conflicts, and implement policy. Evidence of the depth of this dilemma can be found not only in party debates over current policy problems, but also in discussions of organizational and theoretical issues associated with preparations for the first post-Tito party congress, scheduled for next Spring. How the current leadership finally chooses to deal with this dilemma--indeed, whether it proves capable of dealing with it at all--is likely to shape the future development of the Party and the broader political system in Yugoslavia.

The post-Tito leadership of the Party has continued to carry out Tito's call for the establishment of collective leadership at all levels of Yugoslav society. These actions began while Tito was still alive with the establishment of a one-year Chairmanship that rotated among the members of the Party's Presidium, and a rotating two-year Secretaryship. This formula for organizing a collective leadership was retained following Tito's death. The office of President of the Party that had



been occupied by Tito was abolished, and the Chairmanship of the Presidium was re-labelled President of the Presidium. The specific formal powers of the office of President of the Party were devolved onto the Central Committee and the Presidium as a whole. These arrangements were entirely consistent with existing principles of decision-making at the federal level of the Party and introduced no new source of instability into the post-Tito Party. One important potential consequence of these changes, however, might have been a significant further weakening of the executive mechanism, already weak as the result of changes adopted since 1974.

While Tito was still alive and in the year following his death, the principles of collective leadership also were applied to lower-level party organizations. One-year terms of office were introduced for the presidents of opstina, or county-level party organizations, two-(in some cases four-) year terms were introduced for secretaries of party committees at this level, and the size of the organizations themselves (including the size of the party committee and the number of party secretaries) were reduced. This streamlining was intended to improve the ability of these lower-level leaderships to communicate with basic party organizations in their territories, to make decisions and implement them more effectively, and thereby ensure adherence to party policies by individual communists in non-party organizations and institutions. The party organizations at this level were now to focus their activity on the Party itself. Direct contact between the Party as an organization and non-party organizations and institutions was to be carried out through the commissions and



other bodies of the Socialist Alliance, other consultative bodies, or ad hoc action groups.<sup>1</sup> Despite these changes, party committees, and especially party secretaries, have remained powerful political actors. They are key actors in what might be described as "cartels" of local elites that control the decision-making process in their territory.<sup>2</sup> However, it remains to be seen whether these individuals, as they are rotated out of the opstina committees and secretaryships, lose power or continue to exercise it from their new positions.

Implementation of the principle of collective leadership has moved more slowly at the republican and provincial level of the Party. According to the timetable adopted in June, 1979 while Tito was still actively pushing for implementation of his proposal, each of the regional party leaderships was to adopt formulas for the rotation of leading positions, analogous to those adopted by the central Presidium. The introduction of rotation at the regional level, however, threatens to undermine not only the power and authority of the members of these leaderships themselves, but the stability of the central party leadership, as well. For, as the central Presidium is presently constituted, each rotation in a regional leadership will necessarily result in the replacement of at least one member of the Presidium. It is not surprising, therefore, that actual implementation of the formulas for rotation has been very cautious in the regions. One regional leadership has consistently opposed it, another has delayed its adoption until its congress in the Spring, others have implemented it by electing the present incumbents to the first term of office under the new formulas, thereby in effect

delaying their implementation. Thus, the whole question may be put off until next Spring. And it is not inconceivable that differing formulas may be adopted by the regional leaderships at their respective party congresses, despite evidence of discussions in the Party's Commission for Statutory Questions of the need to adopt a uniform organizational formula for all party organizations from "the summit of the LCY on down" at the upcoming 12th Congress.<sup>3</sup>

No concrete proposals have yet been made public in preparation for the Congress, although Central Committee discussion of the political report and changes in the party Statute are about due. However, reports in the party press suggest that discussions of changes in the organizational and procedural rules of the Party to be adopted at the Congress are taking place in an atmosphere of increasing concern over the apparent lack of unity and discipline in the Party and its consequent inability to fulfill its integrative function. One result of this concern appears to be a renewed attempt to define the principles of "democratic centralism" in such a way as to emphasize the responsibility of individual communists to adhere to party policies and work for their implementation in the non-party groups, organizations and institutions of which they are members, rather than to become representatives of the "narrow interests" of these groups, organizations and institutions. In large part, the leadership of the Party sees both the present economic difficulties and the outbreak of Albanian nationalist unrest in Kosovo as the products of the lack of unity and discipline not only in the party ranks, but



among responsible party leaders, as well. And it sees the restoration of unity and discipline as the key to resolving economic problems and regulating, if not eliminating, nationality conflict.

At lower levels of the Party, and especially at the opstina level, individual communists and the organizations of which they are members must work to achieve the "harmonization" of the conflicting economic interests of self-managing enterprises around "optimal" solutions. Widespread activity toward this goal is expected to lead to greater cooperation in the economy and, eventually, solution of the country's problems. There are, however, apparently no clear cut guidelines at present for how such "harmonization" is to be achieved, and the only obvious method--compromise between conflict partners--continues to be condemned in the press.<sup>4</sup> Similarly, individual communists and their organizations are expected actively to oppose nationalism and nationalist activity, and to resolve conflicts between members of different nationality groups before they reach serious dimensions. However, no specific guidelines for party action in the area have yet been developed. Indeed, the central party leadership does not even know what effect the training conducted at the Tito party school in Kumrovec has had on the almost 500 party members who have passed through in since 1975.<sup>5</sup> This, and the strategies and techniques of conflict resolution appropriate to the problems confronting the regime, are now the subject of research commissioned by the central party Presidium in preparation for the 12th Congress.<sup>6</sup>

But even if such research produces effective guidelines for party action--and the extensive Western literature in this area suggests that this is doubtful--it will be several years before they could be fully implemented. Indeed, with widespread rotation of party functionaries

at all levels, it would appear that a very long period will be required for the establishment of any new norms of behavior. This may be one of the reasons why, contrary to the general trend at the opstina level, the Party is increasing the number of professional party secretaries in larger opstina organizations and in areas of mixed nationality.<sup>7</sup> Although even these professional cadres will be subject to rotation, they can be expected to be more responsive to party directives and to implement party policies more vigorously than non-professionals.

The republican and provincial leaderships themselves also appear to be targets of the call for greater unity and discipline in the Party. Like their counterparts in the lower-level party organizations and at the federal center, republican and provincial leaders must reconcile the diverse and sometimes conflicting interests within their respective regions. Together with regional representatives in the central party organs and state bodies, they must establish regional positions on questions of federal policy, which the latter must defend during the shaping of federal policies that takes place in those bodies. But the regional leaderships, like regional representatives at the center, must guard against becoming too closely identified with the particular interests of their respective regions if the system of central decision-making based on consensus is to work. They must be able to compromise on federal policy and ensure that, once a policy is adopted, it is implemented.

Republican party leaderships have not always been successful at balancing regional and "all-Yugoslav" interests. In January, for example, the Slovenian party President pointed out a tendency toward the representation of narrow regional interests even in "republics that have several nationalities." He called this tendency "republicanism" and



equated it with "nationalism," asserting that it constituted a tendency toward "disintegration."<sup>8</sup> Accusations against the Kosovo party organization in the aftermath of the Albanian nationalist demonstrations there confirm the extent to which the regional organizations enjoy autonomous authority over cadres assignments, supervision of local institutions, and implementation of central policies, and the extent to which they are free from, or can resist, central supervision of their actions. It is not surprising, therefore, that following the Kosovo events the Secretary of the Slovenian party organization, in an address to the Party's political school on the theme "democratic centralism in the theory and practice of the LCY," renewed the warnings of the early 1970s against defining democratic centralism so that the republican and provincial organizations would be transformed into "a kind of confederation" or "a federation of parties."<sup>9</sup> But Yugoslav experience of the late 1960s suggests that the "democratization" of inner-party life called for by the campaign to establish collective leadership, and especially the subjection of regional leaders to greater pressure from lower levels of the Party, is likely to result in greater responsiveness on the part of these leaders to "narrow regional interests" than to directives from above. Moreover, with the implementation of severely restricted tenures of office and mandatory rotation, even the most determined supporter of central policy will not have much opportunity to ensure its implementation.

The problem of forging inter-regional agreements in areas where the particularistic economic interests of the republics and provinces

conflict appears to be increasing in the post-Tito period. While several major conflicts were resolved through hard bargaining while Tito lay dying and in the first months following his death, recent months have seen an increasing backlog of unresolved conflicts. Indeed, the slowness of central decision-making, resulting from ongoing inter-regional haggling even in the face of severe problems that seem to cry out for immediate responses, has prompted the President of the FEC to suggest that perhaps a time limit ought to be established for the process of inter-regional bargaining over policy, after which policies ought to be passed by some special procedure.<sup>10</sup> Moreover, some of the "solutions" or "agreements" that have been reached have been so general in nature as to constitute no agreement at all; they have merely legitimized the autonomous pursuit of independent policy by regions intent on going their own ways. Finally, a particularly ominous development is the apparent failure of the regional leaderships to ensure implementation of a particularly important agreement on a potentially explosive issue: the agreement on aid to the underdeveloped regions contained in the 1981-85 plan. As of March, the leaderships of the developed regions had apparently not yet moved forcefully to ensure that enterprises in their regions invested in the underdeveloped republics and provinces.<sup>11</sup> Any weakening of the regional leaderships or increase in their exposure to pressure from below is likely to lead the developed regions to further resist fulfillment of this agreement, and to increasingly agitated demands in the underdeveloped regions that they do so.



In this way, the Party's apparent commitment to implement fully the "Tito initiative" as the 12th Congress approaches would seem to undermine its ability to take effective action to resolve the most pressing problems confronting Yugoslavia. The ability of the Party to take resolute action in response to any problem short of open "counterrevolution"--i.e., a direct threat to its monopoly of formal political power--is further weakened by the fact that the leadership and wide segments of the membership appear to take the "democratic" elements of "democratic centralism" very seriously indeed. Responsible party officials appear to be deeply committed to extending the rights of the minority in party discussions prior to decisions. And even in discussions of how to deal with dissidents and critical views of the regime that have been expressed in Yugoslavia and abroad, central party officials--although quick to condemn individuals and attack particular articles or actions--have been careful not to rush headlong into the adoption of repressive policies or to follow the lead of more dogmatic participants in these discussions.<sup>12</sup>

Thus, in addition to economic and nationality issues, the Yugoslav party leadership must grapple with an important ideological question: How to resolve the tension between democracy and organizational effectiveness inherent in the operational principle of party life? Consequently, the upcoming 12th Congress may turn out to be more than a congress of "continuity." It may be a congress of "definition." For it seems now that events compel the leadership to come to grips with a problem that has remained unresolved since at least 1966. And the solution they come up with--if they come up with one--will define the character of the post-Tito Party.

NOTES

1. For a summary of these changes, see the report to the 16th Central Committee meeting, "Osnove sa sustinsko ozivotvorenje Titove inicijative," in Komunist, 23 January 1981.
2. Ibid., 13 February 1981.
3. Ibid.
4. See, for example, the summary of a report on the work of the Serbian delegation to the federal Chamber of Republics and Provinces, in Politika, 10 February 1981.
5. Personal interview (Belgrade, December 1980).
6. Personal interview (Belgrade, December 1980). See also the speech by then party secretary Dusan Dragosavac to the 16th C.C. meeting, in Komunist, 23 January 1981.
7. Ibid., 12 December 1980.
8. Ibid., 23 January 1981.
9. Ibid., 5 June 1981.
10. See NIN, 21, 28 June and 12 July 1981.
11. Politika, 14 March 1981.
12. See the reports of a consultative conference in the central Presidium, in Politika, 6 February 1981 and Komunist, 13 February 1981.



Basic Features of Yugoslavia's Economic System and  
Performance at the Beginning of the 1981-85 Plan Period

by

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### Recent Economic Performance in Post-Tito Yugoslavia

Looking back at the economic performance of the Yugoslav economy in the decade preceding Tito's death, one sees both positive and negative tendencies. On the positive side, the 1970s witnessed a continuation of rapid growth and structural change at a pace in excess of those achieved in many middle income, industrializing economies. Yugoslavia maintained a rapid pace of economic development despite shocks in the international economic system that adversely affected its development potential. Yugoslavia's rapid growth continued to reflect the party's and Tito's goals of economic modernization and diversification combined with significant improvements in living standards. These goals were to a large extent realized.

On the negative side, certain economic problems that first appeared in the early 1960s recurred and intensified, including problems of labor absorption, regional development differentials, cyclical macro instability and inflation, and balance of payments difficulties. By the time of Tito's death, many of these problems had reached a critical state--inflation was at a postwar high of around 26 percent, the current account deficit was the worst in history, and external indebtedness was growing rapidly, causing concern both at home and abroad about the Yugoslav financial situation.

Response to the deteriorating economic performance was slow, both because of the policy paralysis that accompanied Tito's illness and death, and because of the cumbersome nature of Yugoslav decision-making apparatus. By the spring of 1980, however, the critical nature of the situation, especially in the balance of payments, mobilized the post-Tito leadership into introducing a serious stabilization program. This program was then bolstered by further anti-inflationary measures in October 1980 and by a continuation and strengthening of stabilization measures in May 1981 and again in the last few months.



The 1980-81 stabilization policies are similar in content and intent to stabilization policies introduced during earlier periods of economic slowdown in 1972 and 1975-76. As in these earlier periods, balance of payments difficulties have compelled policy makers to reduce the growth of domestic demand and output as a short-term mechanism to reduce imports. Also as in these earlier periods, control over investment demand via credit restrictions and other direct measures has been the major policy tool used to restrain domestic demand. In addition, as in earlier periods, but more successfully this time around, controls over investment have been supported by direct controls over enterprises income distribution designed to reduce the growth of personal incomes and increase the share of enterprise saving in enterprise net income. These policies have had their desired effects: the growth of real social material product fell to a postwar low of 3.1 percent in 1980; total domestic demand fell by an estimated 1.0 percent - 1.6 percent, with investment demand in fixed assets falling by 1.5 percent - 2.0 percent, and real personal incomes in the social sector of the economy fell by an estimated 7 percent - 8 percent, with real disposable income per capita falling by an estimated 3.5 percent. As a result of the domestic slowdown and of increasingly severe import restrictions, real imports of goods and non-factor services fell by an estimated 9.9 percent while exports of goods and non-factor services increased sharply by an estimated 10.3 percent, partly in response to the softening of domestic markets and partly in response to direct pressure on firms to export as a precondition to access to foreign exchange. As a result of the developments, the external current account deficit fell sharply from \$-3.7 billion in 1979 to \$-2.3 billion in 1980.

Preliminary evidence suggests that the continuation of stabilization efforts in 1981 has produced further sluggishness in the domestic economy. During the January-April period, real investment expenditures fell by an



estimated 10 percent, real personal incomes in the social sector fell by an estimated 8 percent, real nonagricultural production increased by about 2 percent and real industrial production by about 3 percent. Despite the continued slowdown in the domestic economy, however, balance of payments targets have not been realized and external difficulties persist. Yugoslavia's trade deficit was \$3.5 billion and its current account deficit an estimated \$800 million during the first half of 1981. Better export performance, especially to the western OECD markets, is essential if the annual current account deficit is to fall below its 1980 level and if the substantial debt service payments required in 1981 are to be made without further large increases in external debt. During the first half of 1981, exports to the West fell to only 32 percent of total exports, 10 percentage points below their level one year before while exports to the Comecon countries reached 51 percent of total exports, 12 percentage points above their level one year before. As a result of these export developments, interacting with relative stability in the shares of imports from the West and Comecon, trade with Comecon actually registered a small surplus during the first half of 1981 while trade with the West registered a large and unsustainable deficit. This deficit has been one danger signal indicating that the stabilization measures have not been sufficient to restore balance to the economy.

A second danger signal has been the increase in inflation to an estimated annual rate of 50 percent during the first half of 1981 that led to the imposition of general price controls in an effort to bring the annual rate down to 32 percent by year's end. Continued difficulties in the control of inflation and external imbalance will undoubtedly mean the continuation of stabilization measures throughout the rest of the year, and the recent devaluation and increase in interest rates are consistent with this policy direction. Under



the short-term economic constraints the Yugoslav leaders find themselves, there is really no alternative by a continuation of policy-induced domestic slowdown and direct import controls to keep the lid on the balance of payments.

Yugoslavia's past experience with intermittent stabilization efforts suggests that both the Yugoslav leaders and population are capable of responding pragmatically to the short-term necessity of cooling off the domestic economy to reduce external imbalance. But if past history gives cause for optimism about the ultimate short-term effectiveness of stabilization efforts, the fact that the economic difficulties which such efforts are designed to alleviate are significantly greater now than they were during earlier stabilization attempts is cause for concern, as is the fact that such efforts and the sacrifices they entail must be made without Tito's personal support. Even more serious may be the fact that the potential short-term effectiveness of stabilization measures in no way guarantees the introduction of the policy and systemic changes required to eliminate the underlying causes of recurrent stabilization crises. These changes, although essential to the permanent improvement of the Yugoslav economy, are much more difficult to realize in practice than are stabilization policies, both because they require a longer period of time to be effective and because they are both politically and ideologically more controversial. Because of the urgency of restoring macro and external equilibrium as quickly as possible and because of the political and ideological uncertainty following Tito's death, neither the political and ideological concensus nor the time required for the success of these policy measures is easy to come by. Nonetheless, as the following discussion of the deficiencies and distortions of the current Yugoslav system indicates, the failure to make such changes can only further weaken the performance of the Yugoslav economy, with growing risk to both economic and political stability.



Salient Characteristics of the Yugoslav Economic System at the Beginning of the 1981-85 Plan Period

The economic policy-making regime in Yugoslavia appears to be severely fragmented along republican and even communal lines. This fragmentation is the logical and unfortunate outgrowth of the systemic reforms of the 1970s that steadily dismantled the federation's powers in economic policy-making and made consensus and bargaining among republics and provinces the linchpin of policy formulation and execution. This new system, although understandable given Yugoslavia's long-term commitment to reducing "statism" in the economy and its long-standing sensitivity to multi-national concerns, is detrimental to the objective of rational, timely policy response at the economy-wide level. Ironically, it has also turned out to be detrimental to the very objectives it is designed to achieve. Statism in the Yugoslav economy is not on the decline. On the contrary, the economic system seems to be riddled with growing government intervention in economic life--intervention that is ad hoc, local and uncoordinated in character, and that has increasingly distorted the market signals and market forces that guide enterprise decision-making. In addition, the new framework of multi-regional bargaining, has not alleviated regional concerns about unfair treatment, but apparently aggravated them. With growing emphasis on regional costs and benefits as the first step in policy formation, regional participants are increasingly concerned with the regional implications of policy measures that might be clearly desirable from a national point of view.

There are numerous pieces of anecdotal information to illustrate the conclusion that effective policy-making in Yugoslavia is hindered by the increasing fragmentation of the system. A few examples will suffice here. First, the cumbersome nature of the social compact machinery delayed the introduction of stabilization policies long after they were required to curtail



the inflationary boom in 1979. Only in mid-1980, when the balance of payments situation confronted diverse interest groups with a common external emergency was consensual policy forthcoming. Second, apparent difficulties in getting inter-republican agreement have so far checked efforts to re-introduce a national foreign exchange market in which the National Bank could play a vital role in the allocation of foreign exchange. As a consequence, it seems that regional barriers to the movement of foreign exchange, with predictable implications for the efficiency of foreign exchange use, are solidifying. Third, despite the consensual agreement on and publication of the national development plan for 1981-85, individual republican plans are not consistent with the totals of the national plan in many areas, and individual republican plans even differ from the totals of the enterprise and communal plans on which they are based. Thus it is incorrect to interpret the national plan as a consensus document of the republics and provinces at any level of detail. Instead, the national plan is best viewed as a rather broad statement of certain developmental priorities; like its predecessors, a statement of general goals rather than a blueprint for action. Unlike its most recent predecessor, however, the new plan does not even have a detailed set of supporting social compacts specifying projects and policy measures to be adopted at the regional level. The elaboration and adoption of such social contracts have been delayed, as they were during the 1976-80 plan period, by inter-republican disagreements about the distribution and financing of plan targets among the individual republics.

A final illustration of the fragmentation of the system is provided by the national plan itself, which contains sections outlining the need for republican and provincial material balances for critical commodities, including energy, certain raw materials, and agricultural goods. According to the



national plan, each republic and province is to carry out its own material balance for these commodities, locating its own surpluses or deficits as the first step to national agreements on "pooling of resources" and investment strategies. The danger of this approach is suggested by past experience in the steel and petrochemicals industries, where perceived regional needs led to the duplication of facilities at the national level.

Effective policy-making at the national level is currently impeded not only by regional fragmentation of interests and policy-making machinery, but also by the paucity of policy instruments that operate at the national level. As a result of the reforms of the 1970s, the capacity to set foreign exchange policy, one of the last remaining federal tools, has gradually been transferred to the regions. An important federal tool that still exists is monetary policy, but the longstanding difficulties of using it to control aggregate performance in the presence of substantial selective financing commitments and substantial pressure to finance excess demand for credit at controlled interest rates remain unresolved. In addition, the very large overhang of foreign exchange deposits in the monetary system would make the job of fine-tuning aggregate economic performance via monetary policy exceedingly difficult even under more auspicious circumstances.

Besides monetary policy, the federation retains a substantial apparatus of price controls at its disposal. The evidence suggests, however, that these controls have not been effective either in keeping the inflation rate within price controlled limits or in offsetting distortions in relative prices introduced by the inappropriate pricing of labor, capital, foreign exchange and other inputs. On a selective basis, price controls have intermittently exercised downward pressure on the prices of certain basic food, raw material and energy items, and they have certainly distorted the timing of price increases. For



example, it is widely argued in Yugoslavia that part of the impetus behind the very large price increases that occurred in the last quarter of 1980 was the temporary relaxation of price controls, with the result that pent-up inflationary pressures exploded into open price increases. Given their temporary and selective effects on the overall price level and on the relative prices of specific commodities, federal price controls alone are not a strong instrument on which to base a coherent national economic policy. Nor, of course, are they a desirable policy tool, since they tend to distort rather than to improve the economic indicators on which the market system functions.

In the absence of a well-functioning set of national economic policy instruments, the introduction of economic policy responses to perceived economic difficulties at the national level requires the negotiation of agreements among the republics and provinces. As noted earlier, this negotiation process takes time, and policy responses, when finally introduced, may be long overdue. Not surprisingly, such a system of policy formulation and execution is much better equipped to respond to crisis situations, when the communality of interests of the participants is apparent, than to plan for basic structural or systemic change in non-crisis situations, when divergences in interests block the decision-making process. Thus the Yugoslavs, albeit with a considerable and unfortunate lag, were finally able to introduce the stabilization measures discussed in the first section of this paper in response to the foreign exchange crisis of 1980-81. As already noted, however, these measures fail to grapple with the economic problems and systematic factors underlying this crisis and similar crises in the past.

In the opinion of most economists inside and outside of Yugoslavia, the recurrence of economic instability can be traced back to the improper pricing of capital, labor and foreign exchange. With the price of labor



above its market clearing level and the prices of both capital and foreign exchange below their market clearing levels, the incentives guiding the allocation of resources among projects and sectors of production in no way guarantee efficiency in resource use. The results of such a distorted set of input prices is an excess supply of labor, apparent in the open and disguised unemployment concentrated in the less developed regions, and an excess demand for both capital and foreign exchange. Depending on whether the economy is in an expansionary or a contractionary phase, the excess demand for capital manifests itself either in severe credit rationing according to criteria that fail to equate the profitability of capital resources across competing users or in the inflationary financing of credit demand through the monetary mechanism. Similarly, in a contractionary phase, the excess demand for foreign exchange manifests itself in quantitative restrictions and/or export promotion schemes that cause the price of foreign exchange to differ from user to user, while in an expansionary phase, this excess demand spills over into unsustainable balance of payments deficits. Needless to say, the resulting misallocation of resources caused by improper input prices has been aggravated by the increasing fragmentation of the system and resulting regional divergences in these prices.

Ironically, the distorted input prices for capital and foreign exchange have in turn exacerbated the fragmentation of the system. With capital and foreign exchange in short supply, the decision-making criteria underlying their allocation are subject to growing political pressures and increasingly concerned with "fairness" and "equity" at the expense of efficiency. Often, fairness is equated with the use of republican resources within republican boundaries, even when their most efficient use lies elsewhere.

Despite recognition of the existence of factor price distortions within large segments of the Yugoslav academic and official community, there is little



indication that policy measures or systemic changes to eliminate such distortions will be forthcoming in the near future. There seem to be two major explanations for this state of affairs. First, some of the necessary systemic adjustments, particularly in the area of pricing capital and labor, raise thorny ideological problems. For example, the appropriate form of the capital allocation and pricing process in a system in which capital is socially owned but in which a state-imposed charge on capital use is viewed as centralized state interference poses a longstanding, unresolved ideological problem. In the absence of a national consensus on a resolution to this problem, the de facto situation is one in which capital remains underpriced, and its allocation remains subject to a variety of ad hoc, informal administrative interventions that, although not centralized, nevertheless reflect extensive state interference. The second major stumbling block to far-reaching systemic reforms in the pricing of resource use is the perceived distributional consequences of such reforms. For example, discussions about proposed reforms to raise interest rates frequently focus on the redistribution that would occur, from social sector enterprises who are the major debtors of the system, to the socio-political communities and private households, who are the major net creditors. Fairness and distributional concerns also quickly arise in discussions of foreign exchange adjustments that might hurt established import-intensive industries, while helping export-intensive ones, as they do in discussions of changing the general structure of protection away from import-substitution industries towards export-promotion ones. Similarly, in discussions of the proper pricing of labor, suggestions that labor services are realitvely overpriced in less developed areas with substantial labor surpluses are countered by the fairness criterion of equal pay for equal work. In a highly politicized system like the Yugoslav one, these considerations of fairness, interacting with concerns for ideology and regional autonomy, form an imposing



barrier to the introduction of basic reforms in input pricing in the pursuit of efficiency.

Finally, before concluding this section on the general characteristics of the system, let us note that to understand the current Yugoslav debate about economic reforms, it is necessary to reinterpret the traditional dichotomy between centralization and decentralization. In the debate that preceded the 1965 economic reform, decentralizers included individuals who argued in favor of market signals and against state intervention in the economy, while centralizers argued in favor of a greater role for planning and state intervention and a more restricted role for market forces. This usage is consistent with standard interpretations of centralization and decentralization, but a closer look at the centralization-decentralization debate in Yugoslavia today suggests a departure from it. Centralizers now include individuals who argue against the fragmentation of the system and call for unified market forces. Centralization in this context refers to the strengthening of national market forces. Decentralizers, in contrast, often argue for the increasing use of self-management agreements on an enterprise to enterprise and republic to republic basis in lieu of impersonal market forces that allegedly constrain the decision-making rights of self-managed firms. De facto, the use of such agreements often means the substitution of administrative and party intervention for market forces to guide economic decision-making, which results in a reduction rather than an increase in enterprise autonomy and more rather than less "statism" in the economy.

Because of the decentralized nature of the Yugoslav system, it is not quite correct to call this a centralizing trend, since the intervention that occurs is fragmented rather than concentrated at the national level. Nonetheless, the trend inherent in the systemic proposals of many of the decentralizers is one of increasing state intervention, and in this sense, the decentralizing reforms may actually be "centralizing" in their effects.

## Conclusions

Most of the weaknesses of the contemporary Yugoslav economic system identified in this paper are recognized by the majority of Yugoslav economists and by many policy makers as well. Their understanding of the nature of the economic problems facing Yugoslavia is reflected in a series of reasonable, insightful policy recommendations, including recommendations to raise interest rates, re-introduce a unified foreign exchange market, and control enterprise income distribution decisions. The fate of these recommendations and the medium-run prospects for the Yugoslav economy depend in large measure on the course of political developments over the next few years. Political choices will finally determine whether Yugoslavia successfully adopts the systemic modifications required for resolution of its national economic problems or whether it continues to limp along toward more economic fragmentation and local administrative intervention in the economy, at the risk of a continued decline in its economic performance.

The Outlook for Yugoslavia's  
Foreign Trade and External Debt in the 1980s

by

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### Yugoslavia's External Position at the Start of the Decade

To place Yugoslavia's situation at the beginning of the 1980s into some perspective, one immediately searches for some standard of reference or comparison. Because of its geographical location and its Communist identity, Yugoslavia is frequently regarded as similar to the East European members of the Council for Mutual Economic Assistance (CMEA). However, in many respects it is more appropriate to classify Yugoslavia as a European developing country than as a centrally-planned economy. Indeed, many of Yugoslavia's problems of economic structure and policy are shared by the other nations of Southern Europe - Portugal, Spain, Greece and Turkey.

These features of the Yugoslav situation are made more explicit by a comparison of certain indicators with Greece and Spain, as presented in Table 1. In the period following the first oil shock on 1973, Yugoslavia experienced the most rapid growth among the three nations, but also suffered the highest rate of inflation. Its level of merchandise exports and external debt per capita are quite similar to Greece, whereas Spain's accumulation of external debt was restrained until the late 1970s. All three economies face large trade deficits in the period of the second oil price shock, and those deficits can only be partially offset by earnings on invisibles (tourism, shipping, etc.) and private transfers (workers' remittances). Furthermore, the same external factors influence each of these economies: (1) economic activity within the European Community, (2) OPEC oil-price policy, and (3) world financial conditions.

Among the sources of Yugoslavia's external disequilibrium during the 1970s, there have been some factors which are common across Southern Europe but also other factors which are unique to the Yugoslav economic system.

Among the factors exogenous to all three economies, clearly the most important was the shift in world relative prices forced by the two oil-price shocks of the 1970s. Trade restrictions by the European Community probably were only a minor factor in this period. The availability of credit in the Euromarkets during 1977-1979, with the surge of new funds into international lending, probably exacerbated Yugoslavia's external disequilibrium at the end of the decade by postponing necessary structural adjustments and policy changes.

Yugoslavia did grow more rapidly in the 1970s than other countries in Southern Europe, but that growth was due primarily to a high accumulation rate - the share of gross fixed capital investment in social product rose during the 1970s and reached 34-35% in 1978 and 1979. Such investment pressure is systemic in the Yugoslav system, and the efficiency of capital allocation has been impaired by excessive construction activity and various restrictions on the capital market. Throughout the 1970s, enterprise and banking funds were channeled into fixed capital investment to raise capacity and boost employment. In enterprises and regions where funds were limited, the commercial banks in Yugoslavia were encouraged to seek foreign credits to finance investment projects. Interest rates in the domestic economy were fixed at levels below current and anticipated inflation, and the rules of self-management restricted capital flows among enterprises and between enterprises and households. Consequently, domestic investment pressure spilled over into a demand for external funds.

Beyond exogenous and systemic factors, certain Yugoslav economic policies also contributed to the growing external imbalance at the end of the 1970s. First, this was a period of fiscal expansionism, above and beyond the growth of investment budgets at federal and republican levels.



Second, monetary growth was driven by the credit process and only halted when the central authorities became alarmed by domestic inflationary pressure or external deficits. Third, there was inappropriate management of the exchange-rate by the National Bank. Despite a high inflation rate from 1975 to 1979, the value of the Yugoslav dinar only depreciated against the dollar by 1 ½% per year. The distortion between external and domestic prices which resulted from dinar overvaluation tended to discourage Yugoslav exports (an effect partially offset by export subsidies), to encourage imports of raw materials and machinery, and to diminish Yugoslavia's competitiveness in tourism.

In coping with balance-of-payments problems, Yugoslavia has benefitted from its political relations with various groups within the world economy - the West, the Soviet-led CMEA, and the Mid-East members of OPEC. Tito's policies of non-alignment during the past two decades supported Yugoslav access to export (and labor) markets, energy supplies and foreign capital. During the late 1970s, Yugoslavia's deficit in merchandise trade was covered by remittances earned in the European Community and the Middle East, energy supplies with credit from the Soviet Union and Arab countries, and financial credits from Western commercial banks and financial authorities in the Middle East.

#### Stabilization Policies and the New Five-Year Plan, 1981-1985

After Tito's death in 1980, the Yugoslav government was confronted with both a political succession problem and a serious economic crisis. Economic decision-making had been paralyzed during Tito's last year, with excess demand leading to rising rates of inflation and a sharp deterioration in the balance of payments. General recognition of the impending crisis accelerated public and private expenditures, delayed remittances from

Yugoslav workers abroad, encouraged imports in anticipation of devaluation, and stiffened the resistance of foreign banks to finance the deficit on current account.

#### Stabilization and Austerity

In the Spring of 1980, the Yugoslav government finally introduced an economic stabilization program. The major elements of this program were restraints on the growth of personal incomes (wages) in the social sector, a 30% devaluation of the dinar in June, credit and public budgetary controls on investment expenditures, and a tightening of the priority mechanism for allocating foreign exchange. Price control policies to aid the stabilization effort were used intermittently and rather inconsistently, with periods of controls on prices or their rates of growth alternating with periods of price decontrol and sharp increases in officially determined prices.

Most of the shortrun, macroeconomic objectives of the stabilization program, with the exception of a slowdown in the rate of inflation, were accomplished. The restrictions on increases in personal incomes resulted in a sharp decline in real personal income and this reduced consumer expenditures in the second half of the year. Restraints on fixed investment also curtailed the growth of aggregate demand.

The policy-induced slowdown in domestic demand by itself worked to reduce the trade deficit, cutting the demand for imports and increasing the supply of exports. These effects were enhanced by the devaluation of the dinar, and together such policies led to an increase in real exports of 9% and a decline in real imports of 10%. As a consequence, the trade deficit declined from \$7.2 billion in 1979 to \$6.1 billion in 1980. The devaluation also ended the speculative delay in remittance inflows and the speculative spurt in imports that had developed in anticipation of the crisis.



The current account deficit dropped from its postwar high of \$3.7 billion in 1979 to \$2.3 billion in 1980. As external conditions improved, Yugoslavia was able to negotiate a standby arrangement with the IMF in June 1980, and this facility was expanded early in 1981 to \$2.2 billion available over three years. Growing confidence in the stabilization program also enabled the National Bank of Yugoslavia to raise over \$2 billion from Western and Arab banks, a successful return to world capital markets after the difficulties of early 1980.

### The Five-Year Plan

In March 1981, Yugoslavia's Parliament approved a new five-year Social Plan for 1981-85, a set of aggregate targets to be supplemented by later agreements on more detailed targets in specific sectors of the economy. The new Social Plan clearly suggests that the 1980 stabilization program will not be a quick-fix, just another stop-phase in the succession of stop-go policy cycles that has characterized Yugoslav policy since the early 1960s. As summarized in Table 2, the new plan calls for gross social product to grow about 4% on average until 1985, a significant slowdown from the 6% to 7% annual rate achieved during the last decade. Besides the slowdown in growth, the plan also calls for greater balance in the economy with average growth rates of 5% for industry and 4 ½% for agriculture. Financial balance is also sought through a decline in the growth of investment and a drop in investment's share in the social product from about 34% to 30% by the middle 1980s. The most rapidly growing category of final demand, according to the plan, will be total exports, slated to grow annually by 8% in real terms. Export growth of this magnitude combined with targetted import growth in real terms of only 1% per year is designed to stabilize Yugoslavia's balance of payments.

Comparing actual Yugoslav performance in the late 1970s with the new five-year plan, the most ambitious target is that for real export growth. Yugoslav exports were a major disappointment of the previous five years with a significant decline in the market share of Yugoslav manufactured goods in European markets. No specific programs for export promotion have been identified so that Yugoslav planners must rely on enterprise marketing initiative given slower domestic growth and an exchange-rate policy which preserves competitiveness.

The real growth target for imports implies further import substitution during the 1980s. The investment priorities in the plan do suggest a continuing emphasis on import substitution, particularly in domestic energy production. Therefore, the target for real import growth, similar to that experienced over the previous five years, may be feasible as long as real investment is restrained as indicated in the plan.

#### Economic Policy and Foreign Trade Efficiency

Even the partial realization of Yugoslavia's new plan will depend critically on the establishment of a moderate growth path for capital investment and the appropriate allocation of capital financing. Past business cycles in Yugoslavia have been stimulated by excessive growth in investment spending, usually leading to excess aggregate demand, inflationary pressure, and larger foreign trade deficits. In addition, the absence of an effective capital allocation mechanism has meant that investment funds are not efficiently distributed among competing projects. With new restrictions on bank credits and public investment funds, the government might be able to ration investment funds to meet structural objectives more effectively.

It is doubtful, however, that project selection has recently become more efficient. Under the stabilization program, few new projects have been initiated



and available funds have been concentrated on the completion of unfinished capital projects. New high-priority programs to boost domestic energy production, including lignite mining, nuclear power and electricity transmission are capital-intensive projects which may appear profitable only because of an artificially low price for capital.

#### The Role of External Finance

From the end of 1975 to the end of 1980, Yugoslav net external debt increased by around \$11 billion or by nearly 200%. The five-year plan suggests that an increase of only \$5 billion in net debt will be permitted over the current period. However, the receptivity of the world capital market to the expansion of Yugoslav external debt can no longer be simply assumed after the experience of Polish debt rescheduling and recent payment problems with Romanian short-term debt. Yugoslav external debt is significant in both absolute and relative terms, although the structure of that debt remains much more favorable than in the case of Poland and Romania. Still, Yugoslavia's traditional sources of medium-term import finance became insufficient with the decline in real investment and machinery imports. Therefore, Yugoslav commercial banks have become more active since 1978 in seeking short-term credits for commodity imports and the National Bank began in 1980 to cover its financing gap with financial credits raised in various bilateral and multilateral syndications.

Nevertheless, the burden of debt is expected to become more costly for Yugoslavia during this five-year plan. The interest rates on official credits are increasing under agreement among Western governments and real interest rates on commercial credits are likely to remain positive during the next several years. Furthermore, the maturity structure on commercial credits to Yugoslavia has tended to narrow given the financial problems experienced elsewhere in Eastern Europe.

## The Yugoslav Economic Adjustment: Domestic Politics and Foreign Policy

### Tito's Legacy

From its inception, the Yugoslav economic system has evolved under the influence of political concerns. Among Tito's priorities, economic organization and policy were always subordinate to domestic politics and foreign policy. The tension arising from self-management, a vanguard Communist Party, and regional decentralization was accepted as essential to the establishment of a Yugoslav polity and society despite the obvious complications posed for economic policy. The Yugoslav economy exhibits other legacies of Tito's political influence. First, overinvestment was regarded as a dynamic advantage rather than as a source of inefficiency. Second, a high accumulation rate allowed the central authorities to redistribute capital to the less-developed regions of the South. Third, the establishment and growth of giant enterprises was encouraged through fiscal policy and investment allocation with a general neglect of smaller-scale enterprises, particularly in the agricultural services sectors.

An outward-looking strategy for the Yugoslav economy became necessary after the break with the Soviet Union, and this orientation was coincident with Tito's subsequent foreign policy objectives. Foreign trade was encouraged in order to deepen Yugoslavia's ties to Western Europe and to gain access to energy and raw materials from the developing countries. Security concerns also encouraged Yugoslavia to use commercial means to improve political relations with various Balkan states - Romania, Greece, to a lesser extent with Albania and Bulgaria.



### Economic Issues and Political Succession

In the period after Tito's death, the federal bureaucracy has been dominant in economic decision-making while Party leaders have been content to criticize policy or make tentative suggestions. The Party itself seems anxious to avoid any prominent role in the current policies of stabilization and austerity. Within the broad parameters set by the bureaucracy for budgets, financial growth, the exchange rate and the balance of payments, political competition and influence remain significant as the expression of particular Republican interests. Interregional transfers have been restrained during this period, but considerable discretion has been delegated to Republican commissions.

The major area of political succession appears to be within the Republican parties and governments. A post-Tito and post-partisan generation of the League of Yugoslav Communists has been prominent for some time, but the principal sources of future political power are not to be found within the federal government. At a later stage, a partial integration of political authority in Yugoslavia may be possible, as well as desirable, once local successions have been completed. Economic policy has become one of the major issue areas in the succession phase as restricted budgets at all levels tend to sharpen the perception of economic choice. As to economic organization, some further evolution in the system of self-management may occur during the decade, but the direction will probably remain unclear during the next few years.

### Foreign Policy Concerns

As was widely expected, Yugoslav foreign policy has been characterized in the post-Tito period by a lack of new initiatives and reduced visibility. Yugoslav comment on Polish events has generally been subdued and neutral. The Yugoslav press has stressed the principle of non-interference in Polish affairs, but has not covered extensively the social developments within Poland that are sensitive issues at home.

One of the most serious challenges for Yugoslav foreign policy in the 1980s concerns Western rather than Eastern Europe. Economic relations with the European Community must be carefully managed in order to protect Yugoslavia's current access to markets. With Greece now a member of the EC and Spain moving toward membership, Yugoslav exports will face additional barriers in those countries and greater competition within Europe. Tito's death stimulated a new agreement between the EC and Yugoslavia in 1980, but the realization of potential benefits will require skillful diplomacy as well as commercial competitiveness.

In the Middle East, the Iran-Iraq war of 1980-81 has posed a serious problem for Yugoslav oil supplies and foreign policy. Like other nations in the area, Yugoslavia was able to expand its exports to both countries during the war. Iraq remains, however, the major Yugoslav export market in the Third World and Yugoslav foreign policy has sought to sustain that longrun interest.

### Conclusions: Whither Yugoslavia?

The importance of foreign trade and external balance is more generally recognized within the Yugoslav political system today than it was five years ago. That recognition could lead to a recentralization of economic policy, but the current state of political decentralization and regional competition make it more likely that indirect methods will be employed. With the start



of this new five-year plan, another major Yugoslav experiment may have begun. Can the Yugoslav economy move toward external balance in a decentralized and autonomous way if the policy environment is improved? The major features of that improved environment are now clear. They would include restrictions on the growth of capital investment, reliance on World Bank funds rather than interregional transfers to support the less-developed regions, the establishment of a less distorted domestic price for capital, and the management of the exchange-rate to preserve price competitiveness in the European market.

Exports (bil)	Imports (bil)	Balance of Current Account	Foreign Exchange Reserves (end-year)	Exports per capita	Debt per capita
14.1	19.7	-5.6	11.1	147	202
15.0	20.2	-5.2	11.9	150	204
16.1	21.1	-5.0	12.8	153	207
17.2	22.0	-4.8	13.7	156	210
18.3	22.9	-4.6	14.6	159	213
19.4	23.8	-4.4	15.5	162	216
20.5	24.7	-4.2	16.4	165	219
21.6	25.6	-4.0	17.3	168	222
22.7	26.5	-3.8	18.2	171	225
23.8	27.4	-3.6	19.1	174	228
24.9	28.3	-3.4	20.0	177	231
26.0	29.2	-3.2	20.9	180	234
27.1	30.1	-3.0	21.8	183	237
28.2	31.0	-2.8	22.7	186	240
29.3	31.9	-2.6	23.6	189	243
30.4	32.8	-2.4	24.5	192	246
31.5	33.7	-2.2	25.4	195	249
32.6	34.6	-2.0	26.3	198	252
33.7	35.5	-1.8	27.2	201	255
34.8	36.4	-1.6	28.1	204	258
35.9	37.3	-1.4	29.0	207	261
37.0	38.2	-1.2	29.9	210	264
38.1	39.1	-1.0	30.8	213	267
39.2	40.0	-0.8	31.7	216	270
40.3	40.9	-0.6	32.6	219	273
41.4	41.8	-0.4	33.5	222	276
42.5	42.7	-0.2	34.4	225	279
43.6	43.6	0.0	35.3	228	282
44.7	44.5	0.2	36.2	231	285
45.8	45.4	0.4	37.1	234	288
46.9	46.3	0.6	38.0	237	291
48.0	47.2	0.8	38.9	240	294
49.1	48.1	1.0	39.8	243	297
50.2	49.0	1.2	40.7	246	300
51.3	49.9	1.4	41.6	249	303
52.4	50.8	1.6	42.5	252	306
53.5	51.7	1.8	43.4	255	309
54.6	52.6	2.0	44.3	258	312
55.7	53.5	2.2	45.2	261	315
56.8	54.4	2.4	46.1	264	318
57.9	55.3	2.6	47.0	267	321
59.0	56.2	2.8	47.9	270	324
60.1	57.1	3.0	48.8	273	327
61.2	58.0	3.2	49.7	276	330
62.3	58.9	3.4	50.6	279	333
63.4	59.8	3.6	51.5	282	336
64.5	60.7	3.8	52.4	285	339
65.6	61.6	4.0	53.3	288	342
66.7	62.5	4.2	54.2	291	345
67.8	63.4	4.4	55.1	294	348
68.9	64.3	4.6	56.0	297	351
70.0	65.2	4.8	56.9	300	354
71.1	66.1	5.0	57.8	303	357
72.2	67.0	5.2	58.7	306	360
73.3	67.9	5.4	59.6	309	363
74.4	68.8	5.6	60.5	312	366
75.5	69.7	5.8	61.4	315	369
76.6	70.6	6.0	62.3	318	372
77.7	71.5	6.2	63.2	321	375
78.8	72.4	6.4	64.1	324	378
79.9	73.3	6.6	65.0	327	381
81.0	74.2	6.8	65.9	330	384
82.1	75.1	7.0	66.8	333	387
83.2	76.0	7.2	67.7	336	390
84.3	76.9	7.4	68.6	339	393
85.4	77.8	7.6	69.5	342	396
86.5	78.7	7.8	70.4	345	399
87.6	79.6	8.0	71.3	348	402
88.7	80.5	8.2	72.2	351	405
89.8	81.4	8.4	73.1	354	408
90.9	82.3	8.6	74.0	357	411
92.0	83.2	8.8	74.9	360	414
93.1	84.1	9.0	75.8	363	417
94.2	85.0	9.2	76.7	366	420
95.3	85.9	9.4	77.6	369	423
96.4	86.8	9.6	78.5	372	426
97.5	87.7	9.8	79.4	375	429
98.6	88.6	10.0	80.3	378	432
99.7	89.5	10.2	81.2	381	435
100.8	90.4	10.4	82.1	384	438

Source: UN, International Statistical Yearbook, National Accounts.

TABLE 1

Yugoslavia in Comparative Perspective: 1980

<u>Indicator</u>	<u>Greece</u>	<u>Yugoslavia</u>	<u>Spain</u>
Population (mid-year)	9.6 million	22.34 million	37.43 million
GDP per capita	\$4400	\$3500	\$5600
GNP Growth Rate (Average 1973-1979)	4.5%	6.2%	2.5%
Consumer Price Inflation (Average 1973-1980)	15.0%	19.3%	15.2%
Exports (fob)	\$4.1 bn	\$9.0 bn	\$20.8 bn
Imports (cif)	\$9.7 bn	\$15.1 bn	\$34.3 bn
Balance on Current Account	-\$2.2 bn	-\$2.3 bn	-\$6.0 bn
Gross External Debt (end-year)	\$7.7 bn	\$18.2 bn	\$21.0 bn
Foreign Exchange Reserves (end-year)	\$1.1 bn	\$1.4 bn	\$11.9 bn
Exports per capita	\$427	\$403	\$556
Debt per capita	\$802	\$815	\$561

Sources: IMF, International Financial Statistics; OECD Statistics; National Sources.



TABLE 2

1981-1985 Five-Year Plan

Category	Annual Average % Growth		
	Actual 1975/70	Actual 1980/75	Plan 1985/80
Demand Categories: Total	5½	5	2½
Private Consumption	5½	5	3
Government Consumption	5	5½	2½
Fixed Investment	7¼	7	1½
Social Product: Total	6	5 3/4	4½
Agriculture	3	2	4½
Industry	8	7	5
Construction	4	8	1
Services	5 3/4	5¼	4
Exports: Volume	7¼	3	8½
Goods	5	3½	8
Services	12¼	1½	9½
Imports: Volume	6	-¼	1
Goods	6	-3/4	1
Raw Materials	5 3/4	2¼	3½
Capital Goods	10	-10½	-8 3/4
Consumer Goods	-½	4 3/4	-2
Services	7¼	3 3/4	1

Sources: Five-Year Plan, 1981-1985; OECD





Post-Tito Yugoslav Foreign Policy:  
Stresses & Opportunities

by

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## Misplaced Warnings of Gloom and Doom

For well over a decade the U.S. foreign policy community has been concerned with issues relating to the stability of the Yugoslav state in the period after President Tito's death. For example, the concern was apparent in the presidential debates of 1976 between Gerald Ford and Jimmy Carter in which both men were queried about their views on this development.

The general prognoses of academics concerned with Yugoslav affairs have ranged from thoughtful concern to an hysterical fear of complete disintegration and even the impending Armageddon of World War III.<sup>1</sup> The general tenor of the prognoses concerning the prospects for Post-Tito Yugoslavia, however, has tended to be mildly optimistic but qualified with concern. John Campbell, writing the Foreign Affairs,<sup>2</sup> aptly summarized this view.

It is a safe prediction that the full legacy will not long survive intact, for the reason that Yugoslavia will change and world conditions will change, not without startling events now unforeseen. The problems will surely be formidable, and parts of the structure are fragile and interdependent: an economic crisis, for example, could sharpen the antagonism between nationalities and leaders, which in turn could undermine political stability and foreign policy. But the foundation stones laid by Tito's achievement, if not the entire superstructure, should endure. No one should underestimate the strengths and abilities of the peoples of Yugoslavia. Given the record of the past, they have reason for confidence.

In retrospect, both the qualified optimistic and pessimistic viewpoints exaggerated the depth and degree of the pressure for change in the Yugoslav foreign policy arena. Since Tito's death remarkably little has happened. In fact, the general consensus can now be that President Tito's impact on specific foreign affairs decisions was frequently overstated, and that the Yugoslav foreign policy establishment's autonomy and freedom from external or internal political pressure has been generally underestimated by outside observers.



The period since Tito's death has been characterized by a dearth of new foreign policy initiatives and the absence of sharp policy reversals.<sup>3</sup> Most noteworthy, however, is the extent to which the Yugoslav foreign policy establishment has quickly reduced its global profile to a level more commensurate with Yugoslavia's needs and responsibilities, and the extent to which the Yugoslav foreign office has been able to insulate itself from the everyday play of internal political affairs. In this brief discussion, I will explain why our concern was misplaced and exaggerated and evaluate the pressures for change, both internal and external. Finally, I will review Yugoslavia's present foreign policy and probable future options in particular areas.

### Reasons for Stability

The primary reason for the relatively conservative, status-quo orientation of Yugoslavia's contemporary foreign policy is rooted in the imperatives of organizational bureaucratization and professionalization. The Yugoslav foreign policy elite has demonstrated a remarkable degree of cohesion and autonomy. These two factors, more than any others, account for the stability and maturity which we presently see in Yugoslav foreign policy behavior.

Since 1956, Yugoslav foreign policy, at least in theory, has been consistent and free from major policy changes. While domestic policy-makers have wrestled with the problems of self-management, nationalism, centralism technobureaucratism, anarcho-liberalism, etc., the foreign policy establishment has been consistently working from their triad of "unchanging" principles: nonalignment, socialism, and independence. The post-1956 history of Yugoslav foreign policy, unlike its domestic counterpart, has been relatively free of the purges, personnel changes, and vituperative debates which have characterized



the domestic sector; as a result, careers within the foreign ministry have developed within a very stable foreign policy framework. Since 1956, the Yugoslav foreign policy network has developed and grown professionally, thereby fulfilling two of the major prerequisites for a cohesive and autonomous organization.<sup>4</sup>

President Tito also contributed directly to this growth in cohesion and autonomy. His personal prestige and penchant for international globetrotting increased the foreign policy sector's involvement and commitment throughout the world. In addition, the foreign policy community, by its constant loyalty to the chief and by the President's personal interest in its affairs, enjoyed a halo effect. Criticism of foreign policy was tantamount to a personal attack on President Tito. Thus, no other single political figure or group was in a position to formulate foreign policy in opposition to, or independent of, the President and the foreign office. Through this procedure, the Yugoslav foreign policy elite simultaneously remained apart from the factional political disputes, enjoyed a very positive reputation, and was able to conduct foreign affairs based on a set of consistent policy principles.

The recruitment policy and organizational structure of the Yugoslav foreign service also contributed to the organization's stability, cohesion, and autonomy. A conscious policy was adopted to rotate important positions among nationality groups, to recruit from universities throughout the country, and to develop a truly "national" bureaucratic structure. While other Yugoslav institutions adopted the same procedures, the attractiveness of foreign affairs as a career insured success for the Ministry of Foreign Affairs. The recruitment policies, coupled with the elite nature of the job assignments and socializing pressures of living abroad, reinforced the national, non-fractious perspective of the foreign policy bureaucracy.

The net effect of all these organizational policies was that the Yugoslav foreign policy community after the death of President Tito was in a position to conduct foreign affairs without undue interference or hindrance. In a sense, the foreign ministry continued to be on a personal mission of President Tito and a direct heir to his legacy. It is not at all surprising, therefore, that Tito's death affected the conduct of foreign affairs so minimally.

The bureaucratization, professionalization, and internal political insularity of the Yugoslav foreign policy network, however, has served to encourage a gradual decline in visibility and involvement in world affairs by the Yugoslav foreign service after President Tito's death. Tito's dramatic world visits and open offers to host international conferences had always highlighted and, in a sense, exaggerated Yugoslavia's importance in world affairs. Generally, such a policy is risky, but Tito's worldwide reputation as a founder of the nonaligned movement and his personal prestige cloaked Yugoslavia and protected her from outside interference. A similar policy without Tito, however, would endanger Yugoslav security. No Yugoslav today can command such worldwide attention; the attempt to do so would probably lead to expressed disapproval from one or both of the major blocs. Thus, it is quite obvious that Yugoslavia needed to take a lower profile in its conduct of world affairs, and it is not surprising that she has done so.

In summary, the organizational imperatives of the Yugoslav foreign policy community have been largely responsible for the status-quo, conservative, low-profile foreign policy position of Yugoslavia since Tito's death, despite the fact that substantively so little has changed.



## Pressures to Change

The present foreign policy of "business as usual" cannot continue forever. Internal and external pressures dictate the need to adapt to changing circumstances. The triad of principles is likely to remain constant, but their relative importance may change, thereby affecting the resolution of conflicts and inconsistencies among them. For example, a continued commitment to nonalignment, at the expense of the advancement of the Yugoslav national interest, may become more unlikely.

Internally, Yugoslavia is faced with a series of economic and political problems that heighten the difficulty in reconciling the triad of guiding foreign policy principles and will necessitate adjustments in the conduct of world affairs. The economic difficulties include a declining economy, huge trade deficits and trade imbalances, and a pressing need to increase productivity and reinvestment capacity. The political problems include the impasse over basic decision-making at the national and republic level, and the threat posed by the Kosovo disorders. Both sets of problems cannot long continue to be confined to the domestic policy arena, nor can ad hoc foreign policy solutions continue to suffice.

The large balance of payments deficits which Yugoslavia has incurred over the last several years have exceeded two billion dollars annually. Coupled with a Western debt structure of 18 billion dollars, it has seriously overburdened the economy, weakened the currency, lowered the effectiveness of exports, and reduced the capacity to import. To date, the domestic policy structures have generally been blamed for this sorry state of affairs; nevertheless, the extent to which the Yugoslav economic picture parallels that of Poland is obvious. The potential threat of pressure for repayment from Western creditors, a growing trade dependence on the Socialist bloc, and the



seeming inability of the self-management socialist economy to respond to free market pressures have created a conflict between two of Yugoslavia's most basic commitments: to socialism and to independence. Until recently, the foreign policy community and the national leadership have ignored the potential conflict and insisted that both goals can be achieved simultaneously. This situation, needless to say, cannot continue indefinitely.

The general slowdown in economic growth and the overall inability to allocate sufficient investment resources to the ailing sectors of the economy also serve as an incubator for future pressures on the general Yugoslav foreign policy framework. Present investment decisions will determine future markets and future trade dependencies. Continued dependence upon socialist bloc sources for investment capital and machinery will affect trade patterns for decades, and may make Yugoslavia's economy progressively more subject to outside control. The inability to continue to receive Western capital and machinery on favorable terms will further exacerbate the inconsistencies between an export-oriented socialist economic structure and true economic independence.

Recent internal political trends have also created causes for concern within the Yugoslav foreign policy community, principally the complete impasse over policy decision-making that has occurred on the national level since the death of President Tito. Basic policy decisions in such fields as credit and banking, agriculture, industrial development, etc., have been postponed or tied to incremental decisions of the federal executive council. Power has also been decentralized and fragmented, thereby making it increasingly difficult to formulate and implement a new consensus. Thus, in specific new foreign policy developments such as Poland, Iran-Iraq, Libya-Chad, etc., Yugoslav foreign policy has been uninspired and ad hoc. In brief, while the



foreign ministry has the advantages of cohesion and autonomy to protect already implemented policies from political policy-makers, it lacks the power to develop new policy initiatives in response to changing world circumstances. Over time, this crisis over authority can be expected to grow more acute, and the anomalies it creates can be expected to become more dangerous.

One internal political development -- the disorders in Kosovo -- has had a major impact on the internal determination of Yugoslav foreign policy. A direct result of the Kosovo disorders was the rapid deterioration of relations with Albania, a nation which has been accused of fomenting much of the rioting that occurred this spring in the troubled Kosovan province.

The speed with which relations between Albania and Yugoslavia deteriorated and the degree to which an internal disorder was transferred to the foreign policy arena troubled many professionals in the area. For the first time, the foreign ministry was publicly criticized on a series of fundamental foreign policy issues: open borders, excessive dependence upon other socialist states, and isolation in the European community of nations. It remains to be seen whether or not the criticism will continue, but a precedent may have been established that could permit the open reordering of the fundamental principles. In addition, the reluctance with which the Yugoslav foreign ministry initiated the anti-Albanian crusade may indicate that the autonomy of the Yugoslav foreign policy community has begun to erode.

A large number of external factors can also affect the direction of Yugoslav foreign policy in the near future. Most noteworthy are the new U.S. defense posture, the Polish crisis, and the Iranian-Iraqi war. Each of these events underlines the inherent inconsistencies among the triad principles and the need to reorient these principles in a more consistent manner.

The new U.S. defense posture and collapse of detente is of major importance to the Yugoslav foreign policy establishment. On the one hand, the reassertion of the Cold War has reinflated Yugoslavia's value to both blocs and has reinvigorated the utility of the concept of nonalignment to Yugoslav decision-makers. On the other hand, the new Cold War has created an additional set of problems. First, it destabilizes the situation as Yugoslavia seeks stability. Second, it increases Yugoslavia's relative isolation in European political affairs. Third, the Cold War reintroduces the quagmire of polarized decision-making which exacerbates the potential for conflict. At a minimum the end of detente demands that a new Yugoslav counter-policy be developed and that the present standard operating procedures be discarded. It can be hoped, however, that the Yugoslav policy-makers will not simply resurrect the policy of the late 1950's of playing one bloc off against the other. If so, they may find that the western bloc led by the Reagan administration is incapable of and not interested in engaging in trans-global competition. The unintended result could be the heightened dominance of the socialist bloc in Yugoslav affairs.

The Polish crisis, more than any other recent development, has demonstrated the hesitancy with which Yugoslav foreign ministry faces the need to adapt. Contemporary Yugoslav foreign policy is unlike that during the earlier Polish, Czechoslovak, and Hungarian crisis situations in which the Yugoslavs played a visible and progressive role. Present policy towards Poland is vacillating, nondirective, and occasionally conflictual. During the course of the crisis, the Yugoslav foreign policy establishment apparently has abdicated its role to the Party and other organizations and refrained from taking a clear and consistent policy. It has never addressed the conflictual inconsistencies produced by the Polish situation for fear of



disturbing Tito's legacy. If this reluctance continues, events themselves may reorient the principles for the Yugoslavs.

The Yugoslav involvement in the Iran-Iraq war also clearly demonstrates the need for the Yugoslavs to reconsider their foreign policy. The Yugoslavs have been forced to profess greater and greater support for the Iraqis in order to protect their economic interests in that state. The apparent conflict with the principles of nonalignment will eventually have to be addressed.

In summary, recent events, both internal and external, are impinging upon the Yugoslav foreign policy apparatus. The principles of nonalignment, socialism, and independence, and the relationship between them is being constantly challenged. The forthcoming congress of the League of Communists must address these challenges. It must specifically formulate a new and consistent set of foreign policy guidelines to guide Yugoslavia through the 1980's. Without a major review of those principles, Yugoslavia's influence on the world will rapidly decline; the cohesion and professionalism of the foreign ministry will suffer; and even Yugoslavia's security could be jeopardized. A continued inability to reconsider past policies, to adapt to new world situations, and to avoid making painful value choices will only serve to diminish Yugoslavia's foreign policy role.

### Implications

The above mentioned internal and external changes can have some implications for the conduct of Yugoslav foreign policy with respect to certain nations and national groupings, although these implications can be moderated by external events outside the scope of this paper and by changes in the political leadership in Yugoslavia and abroad. Thus the predictions which

follow should properly be considered as merely the most likely developments at present:

- A. Yugoslavia's relations with Albania will probably continue to deteriorate.
- B. Balkan cooperation will remain limited to Greece and Romania.
- C. Relations with China will probably decline in importance because Yugoslavia is no longer the center of the nonaligned bloc.
- D. Relations with the European Community will be characterized by heightened tensions if Yugoslav economic difficulties continue.
- E. Support to Poland will be limited and may be interpreted as neutrality, an interpretation beneficial to the Soviet Union.
- F. Relations with the Soviet Union will become more friendly as Yugoslavia's economic dependence on the Soviet Union grows.
- G. Policy with the Middle East will change as it becomes evident that strict anti-Zionism is an insufficient base for foreign policy in an area characterized by struggles between Muslim fundamentalism and socialism.
- H. Relations with the United States will probably worsen, primarily because of the tension and potential for misunderstanding of the Cold War rhetoric and increasingly bi-polar world outlook of the Reagan administration on the one hand, and the insecurity and inexperience of the new Yugoslav leaderships on the other.



NOTES

1. See Andrew Borowiec, Yugoslavia After Tito, Praeger, N.Y. (1977) and Gavriel D. Ra'anan, Yugoslavia After Tito, Westview, Boulder, Colorado (1977) for an alarmist scenario.
2. John C. Campbell, "Tito: The Achievement and the Legacy," Foreign Affairs, Vol. 58, No. 5 (Summer 1980): 1045-1059. Also, see James H. Seroka, "Prospects for Stability in Post-Tito Yugoslavia," Slavic Review, Vol. 37, No. 2 (June 1978): 268-282.
3. The policy with Albania is one notable exception.
4. See Francis E. Rourke, Bureaucracy, Politics, and Public Policy, Little Brown, Boston (1976) for a review of this point.

