Self—Management and Requirements for Social Property: Lessons from Yugoslavia

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I. INTRODUCTION

1. Problems with transitions in Eastern Europe have focused attention on alternatives to both central—planning and unregulated markets. Naive enthusiasm for the market has already begun to wane in the face of growing economic chaos and inequality, precipitating a search for more humane and stable forms of organization. Theoretically and in practice, worker self—management is being advocated as a system able to produce efficiently and at the same time distribute goods and power equitably. The purpose of this paper is to evaluate the role of self—management in achieving equity and efficiency from both theoretical models of the self—managed economy and the experience of Yugoslavia, the one economy at least nominally self—managed on a system—wide scale.

2. Theoretical models derive from many different frameworks, distinguished from each other by assumptions about property rights, the level of competitiveness or openness of the economy and even the objectives of the worker—managers within their firms. At issue fundamentally are the degrees of inefficiency and inequality inherent in self—management. The major sources of theoretical inefficiency are an inability of self—management to secure full employment in the long run, vulnerability to inflation and a tendency toward less than optimal rates of investment due to ambiguous property rights. Inequality arises from the tendency of self—managed organizations to maximize their internal gains, rather than satisfy social goals.

3. Solutions to the unemployment and inflation problems usually call for either further market reform to establish private property rights or government intervention to promote entry of new firms. Property rights concerns typically have been addressed by reformers with calls for private ownership, based largely on reference to the tragedy of the commons. On the other hand, concerns for preserving social ownership have led to government intervention in the form of taxation of established firms or attempts to harden budget constraints so that firms do not squander social capital.

4. Each solution, government intervention or private ownership, does violence to some definitions of self—management. For example, with government intervention to maintain employment, conflict arises between the rights of workers in any one firm to control hiring decisions and the right of all workers to have a job. Which right dominates depends upon one's definition of self—management. If self—management is narrowly construed as autonomy of workers within any given firm, the cost of self—management may well be unemployment. Similarly, if worker ownership, not merely worker management, is

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considered to be a defining characteristic of self—management, the rights of workers who can afford to own their firms dominate the rights of those who cannot.

5. Other models pose the issue in terms of a different set of defining characteristics of self—management, including enhanced enthusiasm, commitment and therefore productivity of workers who manage their own firms. From this theoretical perspective, the self—managed firm is necessarily more efficient than its capitalist counterpart because of the greater effort exerted by a self—determining workforce.

6. Whether the individualist or the committed character of the self—managed firm prevails in reality derives to a large extent from the nature of the property and social relations in which the firm is embedded. For example, considerable recent work on the conditions necessary for cooperation focuses on destructive effects of private ownership on the trust and cooperation needed to make both heirarchical and self—managed firms efficient.

7. The major thesis of the paper, based on an evaluation of Yugoslav experience, is that efficiency and equity cannot be based on self—management at the level of the firm. However appealing the ideal of control by direct producers, intrafirm organization is not the primary determinant of economic and social trajectories. Unemployment, inequality among sectors and regions and inefficient investment are hardly features of a desirable transition. Moreover, autonomous firms in a competitive environment seem to reproduce many of the least appealing features of the capitalist organization of work, among them intra—firm hierarchy. Any new economic system must be construed as a society—wide system of production and distribution, including but not reduced to structure of the firm.

8. Further, the optimal form of organization for enhancement of self—management rests upon a form of social property that moves beyond a simple dichotomy between private and state ownership. Rather, social ownership and social property are relationships that may incorporate aspects of both private and state ownership where necessary, but both must emphasize the social nature of production and distribution. Concretely, social property can be privately or state owned, but the constraints within which production and distribution decisions be defined to reflect norms of equality and social responsibility.

9. The first section of the paper briefly reviews the major theoretical literature on efficiency and equity in self—management. In the second section, the performance of Yugoslav self—management is evaluated briefly for two periods of reform, the 1960's in which markets were emphasized and the 1970's, when non—market methods of economic coordination were sought. The third section links failures of self—management to an insufficient development of the theory and practice of social ownership and social property. A final section addresses the role of social property in generating solutions to the failures of self—management revealed by Yugoslav experience.

II. THEORETICAL VIEWS OF THE EFFICIENCY OF SELF—MANAGEMENT

10. Beginning with the original Ward (Ward, 1967) and Domar (Domar, 1966) models of the producer cooperative, the focus of self—management theory has been the goal of the worker—managed firm. Although these models assume social ownership of means of production, what is seen to distinguish the self—managed firm is maximization of income per worker rather than profit as the goal. Thus the socialist context of the firm is relegated to the background. The self—managed firm is different from the capitalist firm not because

private property in capital is abolished but simply because the two firms pursue different goals.

11. Theoretically, the consequence of reducing the difference between capitalist and socialist firms to management structure is to define efficiency relative to the performance of the ideal competitive capitalist firm. Several conclusions about the inefficiency of self—management follow from using a capitalist “twin” firm as the standard of reference.

12. In the simplest one variable input case, the behavior of the self—managed firm compared to its capitalist twin is “perverse”. The supply curve is backward—bending and prices are highly volatile in response to cost or demand changes. Most perverse is the result that if prices rise, the firm produces less, not more as the capitalist firm would do. Therefore, rising prices are associated with contraction of employment and output in self—management.

13. Many extensions of the basic model have shown that the perversities dwindle with more reasonable approximations to reality, like multiple variable input and substitutability among inputs (Milenkovitch, 1984). Nonetheless, maximization of income—per—worker does have the undesirable effect of rendering marginal productivities of labor unequal across firms. Because hiring decisions are made on the basis of payment to the worker of a share of the firm's net revenue, firms will only hire workers if the addition to net revenue is greater than the current share, or the average net revenue.

14. It follows that the equilibrium level of employment of each firm depends upon its average net revenue structure, and bears no necessary relationship to the marginal productivity of labor in other firms. In general, therefore, each firm operates at a different marginal productivity of labor. As a result, reallocating labor from low— to high—productivity firms would increase the level of output. The conclusion then obtains that self—management is inefficient because when workers maximize per—worker income the society as a whole produces less than is physically possible for a given level of inputs.

15. Behind this result is the absence of a conventional labor market in self—management. No market wage exists to which the employment levels of all firms adjust and hence no mechanism is available for equilibrating marginal productivities of labor across firms. There is also no wage in the sense of a fixed payment for labor services, because all workers receive equal shares of the net revenue. From these characteristic features of models of self—management arises the possibility of unemployment in long—run equilibrium. Unemployed workers cannot make themselves more attractive by lowering their supply price, because if hired they must receive a proportionate share of the firm's net revenue.

16. This simple self—managed economy is thus theoretically doomed to inefficiency and inequality. Even without the instability of the simple one variable—input model, self—management produces less than maximum output with less than full employment. Advocates of self—management have countered with two approaches, both of which reject the ideal capitalist firm as the standard of reference and question maximization of income per worker as an accurate description of the goal of the worker—managed firm.

17. The first approach to salvaging the efficiency of self—management is to posit alternative goals for worker managers, including maximization of worker utility and maximization of profit, each defined in various ways and for various time horizons.

Obviously, if short—run profits are maximized, the distinction between the self—managed and the capitalist firm collapses and both are equally efficient.
18. More interesting are goals which admit non—income sources of satisfaction or utility. Here the common theme is that workers who manage their own firms are more solidaritous with fellow workers and desire to see them employed. Utility then depends upon both income per employed worker and the level of employment. (See, for example, Horvat, 1972, 1985; Tyson, 1977; Vanek and Miovic, 1977, and the survey of Yugoslav enterprises in Estrin and Bartlett, 1982.) To avoid layoffs, workers self—impose a labor constraint in the form of a minimum level of employment. However, in such models the labor constraint typically applies only to firing existing workers, not to hiring new workers, so the theoretical conclusions about low supply elasticities and resulting unemployment are weakened only slightly.
19. A second approach to evaluating efficiency of the self—managed firm emphasizes workers' feelings about their jobs as a source of utility. In these models, the key to understanding relative efficiency of capitalist and self—managed firms is variable effort from workers. Workers who manage themselves are argued to be more productive because they are more satisfied, but their improved efficiency is not captured in the Ward and Domar—type producer cooperative models of self—management (Horvat, 1986; Jones and Svejnar, 1982; Vanek, 1970).
20. The variable effort framework attacks directly the practice of defining the standard of efficiency by the ideal capitalist firm as represented in neo—classical economic theory. In conventional neo—classical theory, the firm operates according to a production function in which output is a function of capital and labor, each labor unit with an assumed constant level of effort. Variable effort faults the standard producer cooperative view of self—management for using the fixed effort, neo—classical production function and thus ignoring the very essence of worker control, increased effort. Limiting efficiency comparisons between self— managed and capitalist firms to criteria derived from neo—classical production functions is seen to bias the outcome against self—management.[i]
21. To deal with potential unemployment in self—management, long—run theories of the self—managed firm devise mechanisms of entry of new firms while still retaining the goal of maximizing income per worker. The least appealing mechanism is to allow existing workers to hire new workers as wage labor for a fixed wage with no share of the profits. Clearly, this solution reduces unemployment at the immediate expense of self—management, since now only some workers are also managers.
22. Other mechanisms include allowing unemployed workers to found new firms by permitting them to set their own wages sufficiently low to attract capital. In this case, workers themselves determine their rate of return and are self—exploiting to the extent that they accept less than the normal rate of return. (This is a very common feature of workers' cooperatives in Westerm capitalist countries.) To minimize exploitation, the state can provide capital at subsidized rates, with loans financed by taxes on the employed, whose resistance to expansion is after all the source of the unemployment problem in the first place (Vanek, 1970).
23. Treatment of capital reveals the second major weakness of self—managed economies deduced from the standard producer cooperative models. In the same way that the self—managed economy uses too little labor, it uses too much capital. This behavior also can be

traced back to maximizing income—per—worker. Capital (like all non—labor inputs) receives the same payment in both capitalist and self—managed firms, but labor must be paid a share of the profit in self—management. As a result, labor is relatively more expensive in the self—managed firm. This firm thus uses more capital (more of the cheaper input) than the corresponding capitalist firm.

24. Although self—management is logically distinct from socialism, the Ward and Domar—type producer cooperative models assume socialist property relations with no private ownership of the means of production. The consequences of this assumption, however, are largely unexamined. If instead of producer cooperative models we consider theories of property relations, we find an opposite conclusion about investment.

25. In non—private ownership, assets are non—vested. Workers have claims only to the income streams generated by their investments and not to the capital itself. Because workers cannot capture the full benefits of investing, they will invest too little. Only in the special case of workers expecting to be associated with their firm in perpetuity will the capitalist and the self—managed firm engage in the same level of investment. Self—management is therefore argued to be inefficient, in the specific sense that for the same rate of return and cost of capital, more investment would be desired under different institutional arrangements (Furobotn and Pejovich, 1974). In other words, the rate of investment is sub—optimal because purely capitalist economic considerations would produce a higher rate.

26. Risk—taking is also seen to be affected by the lack of private property rights. Self—managers in the context of social ownership have a strong incentive to take risks because costs of failure is socialized while benefits of success— accrue to the firm. Excessive risk—taking is associated with persistence of loss—making firms in socialized self—management, because there is no process of adjustment by which losses induce changes in the structure of investment, production and employment.

27. The central government of course could enforce bankruptcy on firms whose risks have not borne fruit, but this solution simply imposes the will of the state on the workers. This is the crux of the property rights challenge: effective self—management can be achieved only with private property because otherwise the choice is between inefficiency or bureaucratic interference.

28. The clearest hypothesis generated from the various models of self—management is that unemployment and barriers to entry will be high relative to some capitalist reference point. Subsidiary hypotheses include persistence of wage differentials across sectors, reflecting misallocation of labor, and existence of productivity differentials between capitalist and self—managed firms. Productivity can be worse in either capitalist or self—managed firms according to the kind of model assumed. With a neo—classical model, misallocation of labor explains productivity differences and the self—managed firm is less efficient. With a variable effort model, self—management is more efficient than the typical capitalist firm because workers work harder and smarter.

29. The same theoretical ambiguity exists concerning capital. Depending upon the precise assumptions, the capital/labor ratio may be expected to be either higher or lower in the self—managed firm compared to its capitalist twin. In either case, however, the criteria for evaluating efficiency are less clear—cut than for employment and productivity, so comparisons are more difficult.

30. Clearly, whatever source of inefficiency is deduced from each of the various models, the macroeconomic environment facing the firm is critical. In the case of entry, if microeconomic intervention like preferential credit to individual enterprises is seen to be distortionary, the only alternative for maintaining full employment is expansionary macro policy. Moreover, to the extent that self—managed firms actually do exhibit low supply elasticities, the degree of expansion must be greater than in the twin capitalist economy. Thus, the burden on the state to conduct successful macro policy is greater in self—management.

31. A second concern is inequality among enterprises. The low inter—firm labor mobility associated with maximization of income—per— worker, mentioned above, has the obvious implication that rich firms will tend to get richer and poor firms poorer. The first important aspect of this problem is an equity issue: should self—management be introduced even at the cost of equal wages for equal work?

32. Unfortunately, the basic premise of decentralized self— management, reward according to work, makes government intervention to redress inequality suspect. Self—governing firms should be allowed to keep the fruits of their labor if there is to be true self—management. The dilemma facing the government, then, is to allow increasing income and employment disparities or violate the autonomy of the self—managers.

33. Compounding this dilemma is the theoretical unclarity of the concept of reward according to work. Determining that returns are the results of worker effort rather than of historical accidents like endowment of superior capital stock or more accessible markets requires imputation criteria procedures that are vague at best. The usual solution proposed is a government agency which calculates, for example, the windfall gains from an autonomous increase in demand. (See, for example, Vanek, 1977, Kardelj, 1981 and Dragicevic, 1967). The government's role then is to tax away these gains to equalize the “conditions of work” to assure that wages are returns to effort alone. The impact of such an agency, with substantial power to impose almost arbitrary taxes, on the independence of firms is ignored.

34. There are few choices of site for evaluating these propositions about self—management. Yugoslavia was the only national economy organized legally on the basis of self— management. Experiences elsewhere have been limited to individual firms or sectors, with the exception of Mondragon, which is a region of self—managed firms linked by a central financial and planning authority. The next section examines the Yugoslav experience with self—management in light of theoretical debates about efficiency.

III. YUGOSLAV SELF—MANAGEMENT

35. The history of self—management in Yugoslavia began in the early 1950's, when the break with the Soviet Union led Yugoslavia to find a distinct road to socialism. In the almost forty years since, both the theory and the practice of self—management have changed radically.

36. In the first decade, self—management was conceived of primarily as a society—wide phenomenon. While its core was expanded rights of firms to make decisions, the goal of greater worker power was not firm autonomy *per se*, but a more committed and productive work force. While the rhetoric of self—management proclaimed unlimited rights for

workers, in practice economic rights were limited to such decisions as relative wages within a centrally—determined wage bill and hiring and firing of managers.
37. The shape of self—management in this period was dictated by two overriding concerns, economic growth and equalization among regions. Therefore, some degree of self—management was desirable because increased productivity would finance growth. However, despite the break with the Soviet Union, the prevailing growth strategy was very orthodox, emphasizing industrial growth and requiring careful husbanding of scarce resources for the expansion of priority sectors.
38. Such a growth strategy leaves little room for firm autonomy. Most decisions about allocation of capital, output and even labor need to be centrally determined to achieve the limited set of national targets which measure growth. In the Yugoslav case, this degree of centralization was also consistent with the second concern of the period, regional inequality. The central government used its control to reallocate resources to the less developed regions (and poorer areas of developed regions) to create jobs and improve the quality of social infrastructure (Flaherty, 1982).
39. Self—management in the 1950's, then, allowed workers only limited control over their firms, with the limits established by broader economic and social goals. In the resulting conflict between rights of workers in any one firm and rights of workers as a whole, the whole clearly dominated. Full employment and equalization of conditions of work among regions and sectors were integral parts of the concept of self—management.

IV. MARKET REFORM AND SELF—MANAGEMENT

40. By the end of the 1950's, neither the economic performance nor the degree of self—management were satisfactory. After a decade of great success in economic growth and equalization across regions, the strategy of industrialization ran into familiar barriers. Shortages, low output/capital ratios and a stagnant agricultural sector called into question the case for constraining firm autonomy to promote growth. At the same time, workers who had expected their rights to be extended with prosperity now saw a widening gap between the rhetoric of self—management and their near—term prospects for greater independence. The final blow was dissatisfaction of richer regions, who argued that they had paid heavy taxes to advance backward regions whose continued inefficiency was a drain on the entire economy (Flaherty, 1982; Milenkovitch, 1971).
41. Rising disenchantment with the narrow conception of self—management and with economic performance culminated in the economic reforms of the mid—1960's. The thesis of reform was that efficiency could only be imposed by introducing a neutral arbiter of success, the market. A typical package of liberalizing reforms was enacted, all designed to open up the domestic economy to the discipline of the world market. The carrot to accompany this stick was broader self—management in an economy in which firms were free to make their own decisions about pricing, investment and hiring.
42. For economic performance, the reforms were a disaster. Inflation, unemployment and balance of payments deficits all soared from 1965 to 1970. A series of stop—go cycles attempted to achieve a compromise between the political commitment to reform and the attendant economic disruptions. In external relations, only the migration of Yugoslav

workers to Western Europe and the resulting remittances from abroad kept the trade deficit under control.

43. The central issue for an evaluation of self—management is the extent to which the self—management component of the reform was implicated in the escalating instability. Both inflation and unemployment appear to some extent to be consequences of greater firm autonomy. In reaction to earlier constraints on wages and to inflationary expectations, workers' councils used their new freedoms to disburse a high percentage of firm net revenue as wages. Consumption grew at a rate almost 4 times faster than expected and the internal savings of firms plummeted (Dubey, 1975).

44. Across the country, but especially in the less—developed regions, open unemployment for the first time became a problem. Rates of unemployment in the poorest regions rose from less than 2 percent to 12 percent between 1965 and 1970 and to almost 18 percent by 1975. At the same time, labor markets in the developed regions faced labor shortages due to migration of skilled workers to Western Europe (Schrenk, 1979). Yet internal migration of the unemployed to these regions did not occur. Consistent with theoretical expectations, workers in the richer areas were reluctant to expand employment once they had one of the basic freedoms of self—managers, power to allocate their firm's net revenue to wages.

45. Laying the blame for post—reform economic chaos on self—management is nonetheless complicated by several considerations. First, and most important, the effect of reform on the degree of self—management is questionable. Second, investment, not consumption, was the major contributor to inflationary pressure. Third, excessive investment was due more to competitive pressure and the role of the state than to self—management maximizing behavior. Finally, barriers to entry having nothing to do with self—management inhibited absorption of the unemployed in the more developed areas (Milenkovitch, 1984).

46. More generally, the crisis cannot be attributed to self—management alone because of the obvious added complications from introducing markets on firms and their environment. As subsidies were withdrawn and foreign competition encouraged, Yugoslav firms found themselves forced to modernize and rationalize to survive. The consequences for worker participation are fairly straightforward and have indeed been found by the few studies available of the behavior of workers' councils. After reform, the role of managers and technical experts in initiating items to be considered by the councils and in determining outcomes have been shown to have increased substantially, while blue—collar influence on firm decision—making declined.

47. Competitive pressure has also been a major contributor to overinvestment. Ironically, reform was supposed to shift the economy away from the excessive investment of the planned economy, but instead it forced firms to escalate investment to adjust to the new environment. While immediately after reform firms did allocate most net revenue to wages, this did not last for long. Investment on the other hand accelerated in the early 1970's.

48. The shift from consumption to investment as the primary source of inflationary pressure is explained in part by the role of the state in the early years of reform. Once the consequences of reform for economic stability and equity became clear, the state intervened to control the worst consequences of reform. Wages were at times frozen to keep managers from using wage increases to smooth over discontent at lack of worker participation. At the same time, the government supported over—investment. Faced with a choice between

massive bankruptcy and supporting even unwise investment, it chose the latter. This behavior constitutes the notorious soft budget constraint so beloved of critics of socialism, but it also reflects Yugoslav commitment to maintaining levels of employment and equity consistent with a socialist society.

49. It is impossible to determine with any precision the degree of responsibility for the failures of reform borne by the market v. self—management. Government intervention muddied the waters by restricting the autonomy of the firm as well as by mitigating the influence of market forces. Inside firms, the role of managers and experts replaced the role of party officials in determining what the firm did in fact maximize, but it is unlikely that income per worker was the goal. Neither markets nor self—management existed in anything like pure form.

50. These caveats notwithstanding, the Yugoslav case does suggest that the market combined with some worker control over wages and employment is a particularly crisis—prone mix. Adding fuel to the fire is the intense regional differentiation in the country. While self—management may be prone to labor immobility, ethnic divisions in themselves are formidable obstacles to the absorption of unemployed workers from the poor regions by the relatively prosperous areas. When reform reversed a decade—long trend toward equalization of regional incomes, the stage was set for the present civil war.

V. TOWARD NON—MARKET SELF—MANAGEMENT

51. In reaction to the continuing crisis in the early 1970's, Yugoslavia launched another reform, this time explicitly addressed to the conflict between self—management and centralization. The central premise was that reform had carried centralization too far and that more control over the economy was necessary. The problem then was to design a system of central guidance of the economy consistent with self— management. The solution was based on reduction in the size of autonomous production units to allow more direct participation by workers and on a combination of voluntary and mandatory targets to maintain macroeconomic balance.

52. Firms were broken down into BOALs (Basic Organs of Associated Labor), in theory the smallest unit producing a marketable output. Relations among BOALs and between BOALs and the central government were regulated by social compacts and social contracts. Among BOALs, the goal was negotiated contracts establishing long—term prices, quantities and other terms. In addition to being longterm, the contracts were supposed to take into account the social as well as the firm—level costs and benefits of the prices, etc. The mechanism for incorporating social information into firm decision—making was the community of interest, defined loosely as any segment of society affected by the contract. For example, residents of a neighborhood near a factory would have a say in the process of production and would be able to impose on 'the firm any cost of cleaning up pollution.

53. Between BOALs and the state, agreements concerned such items as the relation between wage and productivity increases, limits to foreign borrowing, price ceilings and employment quotas. The purpose of the agreements was to maintain consistency between requirements for national economic balance and firm—level decisions without relying on a full—blown central plan.

54. The BOAL system marked a renewed commitment to worker participation, but the concept of self—management upon which it was based proved deficient in several respects. The degree of decentralization resulting from break—up of firms into their constituent units was excessive. Although the expectation was that the smaller units would be forced to cooperate to survive, instead of pooling resources and arranging joint investments the BOALs tended to act individually, each embarking on its own expansion plan. Pressure on investment resources multiplied in line with the proliferation of production units empowered to make, investment decisions. The government was then faced with the same choice as in the 1960's reforms, but on a much, larger scale. It could allow widespread bankruptcy of the BOALs or continue to emit credit in destabilizing amounts to control unemployment. Deepening the dilemma in the mid—1970's, recession in Western Europe sent between a third and a half of Yugoslav guestworkers back home. As before, the choice was to support a level of employment consistent with some notion of socialist equity (and, of course, political stability) regardless of inflationary consequences (Milenkovitch, 1984).
55. Communities of interest and social contracts and compacts also did not work as expected. As mechanisms of coordination they were cumbersome, but the more fundamental problem was the way in which the mechanisms were used. Decentralization did not make the new production units, the BOALs, less subject to decisions favoring their own individual interests. In practice, it simply provided an opportunity for fuller expression of the tendencies toward individualism unleashed by the market reforms of the 1960's. The state had ceded both resources and decision—making power to BOALs, further limiting its ability to construct and carry out a coherent national economic program, on the assumption that BOALs would be motivated to promote national stability. When the assumption turned out to be invalid, the government had few levers of control and the crisis escalated.
56. The BOAL system was introduced as a way to enhance worker participation within a non—market environment of negotiated prices, outputs and investment decisions. Participation may well have improved, but any productivity—enhancing effects at the level of the firm were swamped by the global inefficiency of an economy in which every small production unit was allowed to borrow as much as and invest in whatever activity its individual interest demanded. Reaction to continued crisis focused on the role of the state in supporting inefficient firms. A return to markets, emphasizing bankruptcy, began in the early 1980's, with the usual results of increased inequality, inflation and balance of payments problems. (Flaherty, 1988; Flaherty, 1993)

VI. CONTRADICTIONS OF SELF—MANAGEMENT

57. Yugoslav experience highlights the contradictory nature of self— management. On the one hand, self—management entails freedom of direct producers to control their firms. On the other hand, decisions made by autonomous, uncoordinated firms can in aggregate actually impede realization of self—management within the firm as well as the survival of the firm itself.
58. Market reform in the 1960’s defined self—management in terms of the first pole of the contradiction. Firm autonomy was made synonymous with worker control and the market was seen as the only neutral coordinating mechanism consistent with autonomy. The BOAL system of the 1970's in theory repudiated the market as the coordinating

mechanism, replacing it with negotiated contracts incorporating social and aggregate economic goals. However, by defining self—management as autonomy of the smallest production unit, the 1970's reforms decentralized to the point that conscious coordination of any sort was rendered virtually impossible.

59. To link the problems arising from these contradictions to social property, let us first divide problems into two categories, those affecting intra—firm self—management and those raising issues of inter—firm relations, or relations between firms and society as a whole. Into the first category fall issues such as decline of worker participation in decisions, unequal payments to old and new workers and relations among the various BOALs within an individual firm. These issues all stem from related vulnerabilities of self—management to both autarchic goals and competitive pressure.

60. Autarchic or individualistic goals certainly existed prior to reform, and are traceable to several structural features of the Yugoslav economy, most importantly lack of history of self—management, resistance to central determination of returns according to work and ethnic differences. Nonetheless, successive decentralizations of decision—making, ultimately to the level of the BOAL, reinforced an atomistic view of self—management. Each new decentralization pitted ever larger numbers of ever smaller production units against each other, sacrificing inter—unit cooperation for expected improvement in intra—unit equality. Market reforms at the same time had already increased competitive pressure on self—managed firms and BOALS, reducing the expected gains in intra—unit equality as firms turned to experts to save them from failure in the face of chaotic market conditions.

61. As workers ceded control within the firm to ‘experts’, firms began to implement payment schemes antithetical to self—management, in some cases offering new workers less than proportional shares of the surplus. The BOAL system went further, inducing BOALs to compete to gain access to the most profitable common assets, limiting realization of economies of scale within the firm

62. At the second level, relations among firms and between firms and society, individualism manifested itself in many different ways. Local banks, for example, validated the debt of firms in their area to avoid bankruptcy and unemployment, creating an economy—wide inflationary pressure that eroded potential gains even to these localities. Firms did not report earnings accurately to avoid paying taxes and at the level of regions and political resistance to redistributive taxes mounted (and is one of the main causes of the ultimate demise of the republic). Investment fluctuated widely, depending upon the perceived interests of the firm or BOAL. Where investment borrowing was financed by banks, firms tended to over—invest and accumulate large and unpayable debt. Where and when it became clear that debt was unsustainable, firms simply paid out the surplus as wages and left investment and social funds to wither.

63. In short, problems of realizing self—management at either the level of the firm or the level of society as a whole persisted throughout all the periods of Yugoslav experimentation. In the early, centrally—planned period the contradictions of self—management were manifest mainly within each firm, but with each successive attempt to resolve intra—firm failures of self—management both intra—firm and inter—firm contradictions grew stronger.

64. The common theme across all these time periods and levels of analysis is the nature and role of cooperation and trust. The initial move to self—management suffered from a fatal

blindness concerning property rights, assuming that a system of social ownership of property would guarantee sufficient cooperation and trust to construct self—managment at both the firm and the social levels. For example, the concept of reward according to work, although vague and difficult to operationalize, was not seen to be a locus of conflict, since workers in different firms were all equal as owners of social property and therefore *a priori* must be cooperative. Workers in richer firms were also citizens of the larger socialist society and as such would trust that their taxes (formally called contributions) to social funds were fair. Workers in all firms in turn would trust government (whose workers were also self—managed) to devise macroeconomic policy to achieve self—management and maintain social ownership.

65. These assumptions were not necessarily purely utopian. Yugoslavia's war experience was a powerful source of solidarity and cooperation. In the early post—war period, the very motivation for self—management, repudiation of Soviet—style planning, was itself reflective of a common social goal. Nonetheless, the burden of continuation of cooperation and trust was placed on a concept of social ownership and social that was underdeveloped both theoretically and in practice. In the early period firms did have workers' councils, but as the preceding analysis describes, the definition of social ownership allowed firms only to use the assets and to not sell or alienate them. Indeed, even the income from use was narrowly constrained by centrally—determined limits on wages and choice of investments. Accepting this practical definition of social then required individual firms to believe in self—management at the level of the entire society, which was difficult to achieve when the political and economic decisions were concentrated within a ruling elite. The rhetoric of social property and rule of self—managed workers was confronted with a centralized state apparatus that left little role for real participation in decision making atany level.

66. The obvious gap between the ideal and the reality of social ownership explains part of the push to reform. For example, the state had promised to use social property to deliver increasing levels of consumer goods, but by the end of the 1950's were still not forthcoming. Citizens as well as firms saw little difference after all between Soviet planning and self—management and the concepts of social ownership and social property remained elusive.

67. In the reform periods, the concepts were refined in ways which reflected these dissatisfactions of the 1950's. By decentralizing economic decision making and control, Yugoslav theorists of self—management hoped to realize social property by ceding economic resources to individual firms, communities and regions. Much has been said already above about the tensions and problems produced by reform. With specific reference to social property, the tendency of all the reforms was in fact to de—socialize property by putting it under the control of firms or groups who faced increasing pressure to in effect loot social property to maintain their economic and social existence. With the simultaneous introduction of markets both domestic and international, the concept of social property was thoroughly undermined again, this time at the level of the economy as a whole. Firms and communities, who might in fact have wanted to be cooperative, were forced into beggar—thy—neighbor strategies by the nature of the economy into which they were now thrust unprepared.

68. As a result, the core proposition of social property heretofore, that users of the property cannot destroy or alienate it, came into conflict with stark realities of a crumbling economy.

While still legally proscribed from selling off assets, firms could and eventually did devalue social capital, either by borrowing money they could not repay or by actual running—down of machinery without putting aside required depreciation funds. This tendency was simply accelerated by the BOAL system, which took the path of further individualizing social ownership and property.

VII. CONDITIONS AND MECHANISMS OF SOCIAL PROPERTY

69. The problems experienced by Yugoslav self—management are inherent in the structure of participatory institutions and the failures contribute to our identification and understanding of the core requirements and pitfalls in such a system. Two of the central components of Yugoslav self—management, reward according to work and redistribution to achieve equal conditions of work, are fundamental to a society that is both efficient and just. At the same time, however, unless these principles are applied within proper social institutions, they are bound to fail. This section explores what might be the defining elements of such institutions, focusing on social property as the central concern.

70. Reward according to work is a principle that addresses what has come to be seen as a major impediment to efficiency even in market economies, rent and rent—seeking behavior. Rent in the classical sense of a return to the ownership of a scarce resource can also be defined as '...payment to the owner of a resource independent of the effort or past savings put in by the owner'. (Sorensen, 1996, p. 1338) Viewed in this light, any higher earnings of self—managed firms that derive from historical accidents of market access or inherited higher—quality capital are not be rewards to effort but rents. Conversely, the vagaries of the world market can reduce the incomes of firms independent of their efforts, yielding negative rents.

71. In this framework, rent is clearly a basis for exploitation. For example, John Roemer argues that the owners of rich land may be said to exploit the owners of poorer land. (Roemer, 1982) This is one case of the more general concept of exploitation in Roemer: exploitation exists whenever there is inequality in ownership of resources and any group could be better off by withdrawing with its share of the resources. (Roemer, 1988) This latter point underscores, however, the knife—edge property of rent. Rent must be taken away to avoid exploitation, but excessive transfer of surplus above the amount not attributable to a firm's effort is also exploitative. The choice of mechanism for calculating rent is therefore critical.

72. Unfortunately, the difficulty in determining rent for this purpose (known as differential rent) is well—known. In socialist societies, the calculation problem may be particularly acute because there is no benchmark of competitive market prices of inputs and outputs to use as reference points for calculating rents. (Kornai, 1992; Sorensen, 1996, p.1323; Dragicevic, 1967, pp. 73—77)[ii] Moreover, socialist societies tend as deliberate policy to foster productive structures that generate monopoly rent. Monopolies in production are created to take advantage of increasing returns to scale; monopolies and rent—seeking behavior are widespread in shortages, which most centrally—planned economies have experienced chronically at least with respect to consumer goods.

73. Yugoslav theorists of self—management debated the solutions to these problems of rent for several years before concluding that the best response was to move toward market

reform as the mechanism best suited to further development of self—management.[iii] For example, Ervard Kardelj, in analyzing the reasons for the failure of differential rent to achieve rewards according to work, concluded

74. I think that our failure to ensure equal conditions of economic activity and income—earing was due to a considerable extent to lack of respect of objective market laws. So we had to resort to taxation. (Kardelj, 1964, p.26)

75. In this conclusion, Kardelj anticipates and largely agrees with discussions of property rights as the major explanation of the failure of self—management. Furobotn, Pejovich, Kornai and others in the property rights school argue that the lack of private property produce artificial incentives, while market relations grounded in full ownership rights create automatic and 'spontaneous' incentives. (Furobotn and Pejovich, 1974; Kornai, 1992) Still, Kardelj and the major Yugoslav contributors to the debate were aware of the inherent tensions involved in relying upon market indicators to achieve self—management:

76. For self—management presupposes equality based on the objective laws of material or economic development, on the one hand, and on a conscious adjustment and guidance of that development, particularly of economic and social relations among working people, on the other. Consequently, economic activities governed by the laws of the market, social planning and economic and social solidarity among working people are three inseparable components of our socialist system of self—management. ...True enough, these components are in a contradictory relationship. (Kardelj, 1964, p. 27)

77. We are left, then, in a dilemma. In Kardelj's terminology, there is a contradiction between markets and economic and social solidarity among working people. Although he sees market relations as necessary for achieving a core principle of self—management, reward according to work, market outcomes are not necessarily consistent with the second principle, equalization of conditions of work.

78. This same dilemma has received considerable attention in current work on cooperation, trust and social norms. Working within a game theoretic framework, this literature offers a forward from the contradictions of self—management discussed above. Several analyses of trust and cooperation have concluded that market relations are inimical to trust and cooperation. (For example, Seabright, 1993; Bardhan, 1993; Ostrom, 1994 and 1999; Coleman, 1988)[iv] Private property and markets fail because contracts are incomplete or unenforcable. Contracts need to be supplemented with informal norms and agreements but private property and marke relations can damage these mechanisms. Moreover, even the 'tragedy' of the commons is coming to be seen as less a tragedy than an oppportunity for exploiting the advantages of collective action. As Seabright concludes,

79. To summarize, it should be clear that private property rights not only may fail to solve the problems of externalities that bedevil common property resources. When contractual relations remain in important respects incomplete, private property may also weaken the mechanisms of cooperation that previously existed, either by shifting the bargaining power of the parties so that they no longer share enough interdependence to make cooperation credible, or by weakening the credibility of long—term contracts. (Seabright, 1993, p. 129)

80. Common results found in these explorations of efficient institutions point to several necessary characteristics for trust and cooperation. First, people must develop knowledge that long—term interests can be harmed by acting to maximize short—term interest. In a game theoretic framework, this typically is seen to require repeated interaction, so that the

individuals deciding upon collective action have information about the past and therefore expected future behavior of the various actors. Without such information and expectations, cooperation can fall victim to high discount rates for future gains, leading to the kind of looting of social assets seen in Yugoslavia.

81. In addition, there must be costs to defection from collective action, and these costs must be sufficient to offset benefits from being the first to defect (or simply an early defector). Costs can be monetary, as when loss of reputation leads to loss of credit, or social, as when defecting leads to expulsion from the group. Finally, and critically, trust and cooperation may not result from either of these two conditions without broadly common perceptions of the norms of fairness. Thus, in the Yugoslav case, although monetary and social costs could be imposed relatively easily, at least in the era of more central control, disagreement among regions on norms of fairness still made defection worthwhile. Under these circumstances, the costs would have to rise to such a degree to counteract differing norms that fairness would be increasingly difficult to establish.

82. Supplementing theories of collective action, research on the nature and role of social capital yields insights about the necessary conditions for trust and cooperation. Ostrom provides the most useful definition of social capital: it is the ability to construct commonly understood and practiced, self—enforcing rules of behavior. (From Sobel, 2002, p. 147) The existence of social capital clearly affects incentives to participate in groups and work within networks. In societies with high levels of social capital, people are more willing to trust, or as Sobel defines trust, '...to permit the decisions of others to influence...[their]...welfare. (Sobel 2002, p. 147) With respect to Yugoslavia, a higher level of social capital presumably would have led self—managed firms and BOALs to choose less autarchic paths, to permit decisions of other firms and of the state to influence their welfare.

83. Requirements for high social capital vary across cultures and times, but the literature on social capital identifies several general characteristics applicable to all societies. The number of decision—makers and the frequency of their interactions are important (Ostrom, Gardner and Walker, 1994), since 'dense' networks facilitate both commonality of norms and information flows identifying obedience to norms and imposition of sanctions for disobedience. (Coleman, 1988) Work on management of the commons suggests in addition that informal mechanisms of decision—making, monitoring and sanctioning also support high social capital. However, a key condition of informal mechanisms is local participation. Social networks can lead to efficient and equitable outcomes to a large degree according to the extent that the institutional arrangements are locally—determined. (Ostrom, Gardner and Walker, 1994)

84. These results of the recent research on norms, collective action and social capital put the Yugoslav experiment in self—management in a more positive light. The crisis—driven and erratic shifts in Yugoslav policy did still incorporate critical features identified in analyses of trust and cooperation. Social ownership as the environment in which to embed self—management was originally designed exactly to develop cooperation and trust by reducing inequality and competition. Decentralization and later the BOAL system both explicitly aimed at enhancing local participation, hence creating dense networks, and also at preserving and using local and informal mechanisms of decision—making.

85. However, the research on norms, trust and cooperation also highlights the same problems faced in Yugoslavia, namely the inability of purely local arrangements and decisions to satisfy broader social norms and goals. One caution is that perfectly efficient local arrangements may make people outside the local group worse off [v], as happened in Yugoslavia. Ownership poses a second and related difficulty. Formal or legal ownership is not sufficient to achieve any of the goals purportedly associated with specific forms of ownership. For example, as noted above, private property can produce inefficiency when it ignores or conflicts with established informal practices of decision—making and control and state ownership is not necessarily either efficient or equitable. The heart of the problem is that property relations, like market transactions, involve incomplete contracts that work in practice due to informal (and most likely local) arrangements and networks.
86. The core of the institution of owership is a matter of unquestioned and largely unconscious social and economic practices that must be rooted in nonlegal developments….When obedience breaks down on a large enough scale, no authority is strong enough to police everyone. (Rapaczynski, 1966, p. 88)
87. When the formal institutions are either insufficient to achieve desired goals or in conflict with goals, informal institutions develop that can undermine the formal. This is true not just of Yugoslavia, but of the Soviet Union, where the notorious tolkachi are a clear example of the use of social capital to make institutions work, and of market economies, where open and tacit collusion undermine competition.

VIII. TOWARDS A DEFINITION OF SOCIAL PROPERTY

88. To achieve efficiency and equity, then, we need institutions that support common perceptions of fairness and enhance trust so that the informal practices reinforce and do not impede or repudiate social goals and norms. The arguments concerning collective action and social capital, combined with Yugoslav experience, provide some guideposts for redefining social property to strengthen trust and cooperation.
89. First, with respect to the economy—wide requirements for social property, we need to consider the type of transactions, the social goals toward which the economy is headed, the policies needed to reach those goals and the consistency of policy with existing norms of fairness. It is clear that market relations, the form of transaction favored by Yugoslavia to realize self—management, are fundamentally at odds with trust and cooperation. Therefore, the first characteristic of social property is that it must constrain market criteria for either production or distribution decisions.
90. Note that this does not necesarily mean state ownership or the amorphous social ownership of Yugoslav socialism. Property can be owned by individual production units or by individuals, as long as the uses to which the property is put are in conformity with social goals. This kind of group or individual ownership can in fact be made contingent upon such conformity, so that property rights, while decentralized, are not absolute. This approach has historical precedent in both the Soviet Union and in developing capitalist countries. For example, land reform legislation in the Soviet Union in the 1920's called for distribution of land to small producers as long as they continued production. Many tribal forms of land distribution, for example in South Africa, also allow individual ownership contingent upon productive use.

91. Moving from ownership to the form of transactions, we can begin to specify the constraints that should operate on property to make it social. In general, transactions must be guided toward fulfillment of social goals. If we assume for now that economic goals are embodied in the overall growth strategy of the society, market relations must be shaped toward achievement of the growth strategy. This is perhaps obvious, given that this was the main point of central planning. However, in an environment of social property the nature of these goals and the links between goals and limits on markets must be made transparent. For example, if the development of a domestic capital—goods sector requires high levels of imports, and the country is foreign—exchange constrained, imports of consumer goods will decrease, either by government decree or de facto by rises in prices of these goods. If the latter is allowed, rent—seeking behavior will drain productive resources to activities which increase the supply of consumer imports, legally or illegally. A more constructive alternative in this case would be a rationing scheme, allowing for a rational and equitable distribution of goods. These kinds of decisions are made constantly, hence the tendency to streamline mechanisms for decision—making, in order to respond to changing condisions.

92. Nonetheless, such decisions must not be made by a central planning board, but from a broader base of participation in economic decision—making. In this respect, the Yugoslav communities of interest are an instructive model. Criticisms of the participatory decision making structures of the 1974 constitutional reform center on the inefficiency of both processes and outcomes. Focusing for now on issues of process, the research on norms and collective action show that this criticism seriously undervalues the role of perceived fairness in the efficiency of outcomes. Contrary to neo—classical fascination with costs of participation, if we look instead at costs incurred from lack of cooperation, we come to a more favorable conclusion about institutions like communities of interest.

93. It is also important to consider the economic environment in which the communities of interest were embedded, namely a highly chaotic and vulnerable open market. If the role of market criteria is constrained, both the uncertainty surrounding the impact of decisions and the necessity to make quick decisions (at the macro level) will be reduced. The first requirement of social capital is to embed the participatory decision—making structures in an economy not subject to the wide fluctuations characteristic of a small and open economy. With this requirement met, participatory mechanisms are likely to work more smoothly, at least with regard to process.

94. This point is relevant to outcomes as well as processes of participatory decisions. As discussed in previous sections, the competitive pressure faced by BOALs and communities of interest led them to take increasingly autarchic decisions, which did lead to inefficient outcomes when viewed from an economy—wide perspective. The autarchic outcome suggests further requirements for social property. Property must be used in ways that are consistent with the overall goals of society and yet are also not in conflict with more local goals. This is the crux of the difficulty of defining social property. Even if the society can agree on an overall growth strategy, for example, individual firms or areas may be negatively affected by the strategy. Societies must find some social glue that allows groups to both express their individual preferences and yet adhere to a set of social preferences perhaps at odd with theirs.

95. Networks are clearly one form of social glue, and to develop and sustain networks is a requirement of social property. To facilitate positive interaction between group and

society—wide preference, though, networks must cross group boundaries. Democratic political structures like separation of powers and bi—cameral legislative branckes are one mechanism designed to transcend boundaries and allow for majority rule, but these structures are both themselves subject to erosion of representativeness and not easy to insert into societies with no traditions of such institutions. The most important lesson learned from Yugoslav experience and the research on networks and norms is that structures and norms with which a society is not yet familiar won't work, even if they are intrinsically desirable.

96. Fortunately, every society has in place both local networks and networks that transcend local interests. The trick for defining social property is to find and build upon these broader networks. At the local level, as we have seen above, networks function best when they are dense, when people and groups are relatively small and have frequent communication. These conditions cannot hold when we are talking about transmitting norms and information across groups throughout the whole society. At this level, social capital must facilite communication among groups, which requires what has come to be called 'bridging social capital' in contrast to dense networks, which are 'bonding' social capital. (Putnam, 2000) Burt (1992) views this problem as one of holes in networks, which he calls structural holes. Typically these holes are filled by individuals who earn rents for their activities (this is similar to the Soviet tolkachi phenomenon).

97. The role of social property here is to construct alternatives to filling holes by wasteful rent—earning and rent—seeking behavior. I will outline here only a skeleton of a structure for social property that can expand bridging social capital through society—wide networks. The first requirement is that basic systems of incentives and rewards be designed and implemented to balance competing needs and interests. Mechanisms for doing this based upon communities of interest are for example industry—wide groups of firms, economy—wide groups of consumers (such as consumer cooperatives) and society—wide groups concerned with specific issues such as education or health care. Social capital requires fora for expression of the norms of each of these groups and inter—group discussion of ways to reconcile competing interests. However, in the end, resolution of competing interests must be assigned to a body of policy—makers in which is vested authority for 'bridging social capital'. This body should not earn rents for its activity, but would have the final decision—making power. Thus, what puts the social back in social property is the ability of a governing body to impose limits on individual and group behavior consistent with the social goals (as embodied for example in a growth strategy).

98. Any such governing body of course must refer to the preferences of competing groups and provide as widely as possible for expression of difference of opinion. The second requirement for social capital is that this body is accountable to the groups whose opinions it is soliciting. Typically in capitalist countries electoral recall is the mechanism of accountability, but this is not a necessary feature of a viable system of social capital. Sanctions short of removal, such as have been used to provide incentives to managers to fulfil central targets, are one alternative. Criteria for determining success or failure can be performance—based and/or based on the degree to which social cohesion is maintained in the face of policies with clear winners and losers. The overriding necessity is that criteria are clear and consistent, and, unlike the targets of central planning, defined through broad consultation with interested parties.

99. In both requirements, balancing of competing needs and interests and accountability, the specific nature of the ‘bridging social capital’ must come out of existing institutions and norms. In Yugoslavia, there was no tradition of self—management or even of economic and social cooperation across regional and ethnic boundaries. The pre—conditions did not exist for self—management to bear the heavy burden of bridging local networks by creating a new pan—Yugoslav and socialist consciousness. At the same time, central planning that tried to impose a growth strategy clearly unfavorable to richer regions did not take sufficient account of entrenched local norms of fairness. More suited to the existing conditions would have been a looser economic federation that balanced competing norms and needs through ceding ownership to groups and individuals but closely controlling the use of that capital and the distribution of the surplus. Building on the post—war solidarity noted above, a looser federation could have avoided fetishizing of self—management and rather focused more clearly on both bonding and bridging networks. Instead, the uni—dimensional concept of self—managemend undermined central control of economic policy and led to elevation of the market as the only economic coordinating mechanism consistent with self—management. To be sure, a looser federation would have initially redistributed less to poor regions, but it would more likely have produced greater longer—run satisfaction of the broader social goals of economic growth and alleviation of poverty. In other developing countries, existing producers and consumer cooperatives might provide the strongest social glue for bridging across networks, while in more developed countries federations of trade unions would be valuable in bridging.

IX. CONCLUSION

100. Unhappily, the Yugoslav experience suggests that the conditions under which self—management can be achieved simultaneously with social goals are elusive and fragile. This conclusion does not engender optimism that self—management is a cure for the ills experienced in transition economies.

101. The underlying problem, however, may be more with the narrowness of standard conceptions of self—management than with self—management itself. The first producer cooperative models of self—management explicitly assumed social ownership of production bu the implications of this assumption were not examined. Indeed, the socialist content of self—management was either merely an article of faith, as in Ward and Domar's producer cooperative approach or seen to be irrelevant, as in Vanek's work. In either case, the fact that the firm is embedded in and affected by its broader economic and social environment is not central to most theories of self—management. Yugoslav problems with self—management, however, point to the necessity of connecting self—management to strong central institutions and networks, since the individual firm, whatever its internal organization, is not strong enough to absorb unscathed the impact of volatile markets or misguided planning.

102. Self—management must be embedded in a social context in which good economy—wide decisions are made and at the same time local norms of fairness respected. Conventional criticisms of self—management from the property—rights school and from neo—classical economists who call for market reform may be largely misleading. The point is still valid however that the optimal nature of social property remains difficult to

specify precisely. We know that trust and cooperation are essential to resolving conflicts between local autonomy and social goals, but we don’t have much concete to say about how trust is nurtured in different societies.

103. Clearly, we know that simple changes in form of ownership of assets are not sufficient. Yugoslavia’s many false starts arise exactly from missing this point. In the early years, transferring assets to the state was seen to be sufficient to establish norms of self—management. In later reforms, decentralizing assets to the regions, firms and communes was seen to be sufficient to achieve participation and cooperation. The cost of ignoring the real effects of papering over tensions between individual firms and society was we now know was a revival of ethnic hatred and ultimate disolution of both the country and the experiment in self—management.

104. We also know that the requirements of social capital (and self—management), namely cooperation and trust, are embedded in the broader history of each country. The task facing Yugoslavia in constructing a unique and less alienated society than existing models was new and uncharted. Moreover, the norms that give rise to trust and coooperation are embodied in informal and local institutions and arrangements. By their very nature, they are difficult to identify and to formalize. Therefore, forging relations of trust and cooperation across networks must be a careful and gradual process. Large—scale change in property relations or social relations in order to impose any ideal, free market or ‘socialist man’, is doomed to failure. Only a slow iterative movement, through free discussion of competing interests within a managed and stable economy, can reveal and strengthen both the dense networks and the bridges between networks necessary for as fragile as system as self—management.

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[i] An empirical case for variable effort is made in efforts to measure different kinds of efficiency loss. Most studies that find allocational inefficiency due to violation of—neo—classical static marginality criteria amounts to only about 1% of GNP while losses of productive efficiency “may be 10, 20 or more times greater”. (Horvat, 1986, p. 14)

[ii] Dragicevic (1967) presents one of the clearest discussions of the link seen by Yugoslav reformers between reward according to work and competitive markets. He argues that complaints about injustices in distribution arise from a misunderstanding of the role of fluctuations in market prices. In fact, variations in earnings due to market are necessary: ‘The differences in income earned by the same kind of work organizations, the losses of one and the extra incomes of others,...,is the “price” paid for the general economic development of society’. He then goes on to argue that the price paid will be higher the more the domestic economy is protected from foreign competition. Dragicevic, 1967, p. 76—77)

[iii] Property rights theory generally supported this link between self—management and market reform. Staellerts (1995) provides a usefule summary of the main themes in the property rights approach to understanding Yugoslav experience.

[iv] This does not mean that state ownership is viewed as a better alternative. Bardhan, for example, argues that ‘Although privatization has its equity and efficiency problems, nationalization of the local common property resource and its management by a distant bureaucracy is rarely any better, and in some cases actually much worse.’ (Bardhan, 1993, p. 89)

[v] As Sobel puts it ‘The ability to use network relationships to obtain beneficial outcomes need not be good for cosiety or even for the network. In many circumstances, these benefits come at a cost to individuals outside the group. Society may lose when group members exploit social capital.’ (Sobel, 1992, 146)