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EFFICIENCY AND JUSTICE:  
STUDIES IN POLITICAL ECONOMICS OF YUGOSLAVIA



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## SELECTED WORKS / ИЗАБРАНА ДЕЛА

1.  
EFFICIENCY AND JUSTICE: POLITICAL ECONOMICS OF YUGOSLAVIA
2.  
SHIFT-SHARE ANALYSIS OF THE YUGOSLAV ECONOMY, 1952–1990
3.  
REGIONAL PROBLEM AND THE BREAK-UP OF YUGOSLAVIA
4.  
ЕФИКАСНОСТ И ПРАВДА: ПОЛИТИЧКА ЕКОНОМИКА ЈУГОСЛАВИЈЕ
5.  
СТРУКТУРА И ЕФИКАСНОСТ: ПОМАЦИ, УЧЕШЋА, УЧИНЦИ  
ПРИВРЕДЕ ЈУГОСЛАВИЈЕ, РЕПУБЛИКА И ПОКРАЈИНА, 1952–1990
6.  
РЕГИОНАЛНИ ПРОБЛЕМ И СЛОМ ЈУГОСЛАВИЈЕ
7.  
УВОД У РЕГИОНОМИКУ / РЕГИОНОМСКА ИСТРАЖИВАЊА
8.  
БЕОГРАДИСА
9.  
ИДЕЈЕ: ЉУДИ, ВРЕМЕНА, МЕСТА
10.  
ВОЉА И ОСКУДИЦА / МЕТАЕКОНОМИКА КВАРЕЖИ
11.  
КА ОБАЛИ ПЛОВИ: ОСНОВИ СТРАТЕГОЛОГИЈЕ
12.  
БЕСЕДЕ / РАЗГОВОРИ
13.  
ОДЈЕЦИ
14.  
ЕХЛИБРИСТИСА
15.  
ДЕЛО ЧАСЛАВА ОЦИЋА  
БИБЛИОГРАФИЈА И КОМЕНТАРИ (1970 –2024)  
ПРИКАЗИ И ОСВРТИ (1972 –2024)

Časlav Očić

EFFICIENCY  
AND  
JUSTICE

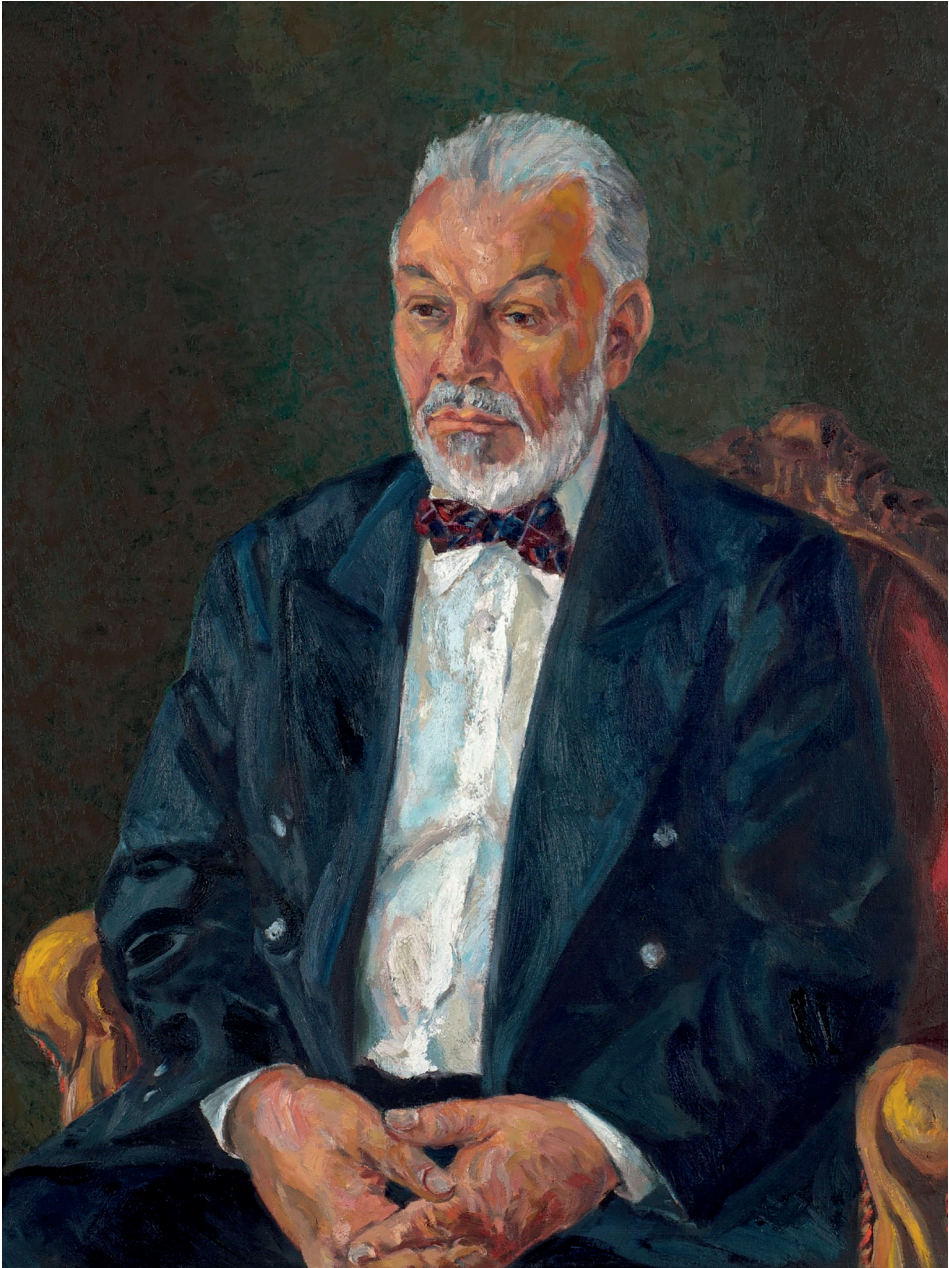
STUDIES IN POLITICAL ECONOMICS  
OF YUGOSLAVIA



АРХИВ ВОЈВОДИНЕ

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T. Oyar

Nebojša Radojev: Časlav Očić, oil on canvass, 95x75 cm, 2009

*To my grandparents*

*Georgije/Đura Očić (parents: Milica and Kuzman), Dalj, April 12, 1892 – Dalj, July 10, 1978*

*Anđelija/Anđa Očić (born Juribašić, parents: Milica and Jovan), Borovo, October 15, 1892 – Dalj, June 4, 1977*

*Dimitrije Vujić (parents: Hristina and Vukašin), Dalj, October 24, 1888 – Dalj, September 26, 1970*

*Emilija Vujić (neć Cvijović, parents: Vasilija/Vata and Radivoje), Borovo, August 2, 1890 – Dalj, November 24, 1918*





# CONTENT

INTERDEPENDENCE AND STRUCTURAL CHANGE:  
SOME TENDENCES IN YUGOSLAV ECONOMIC DEVELOPMENT  
1-120

INTEGRATION AS THE POOLING OF LABOR AND RESOURCES:  
THE YUGOSLAV EXPERIENCE  
121-138

CONVERGENCE OR DIVERGENCE?  
REGIONS IN FORMER YUGOSLAVIA 1952-1988  
139-180

HETERONOMIE DER ZWECKE:  
NATIONAL QUESTION, FEDERALISM AND REGIONAL DISPARITIES,  
YUGOSLAVIA 1945-1990  
181-230

KOSOVO AND METOHIA:  
ETHNODEMOGRAPHIC CHANGES  
FROM THE END OF WORLD WAR II TO 1991  
231-256

KOSOVO-METOHIA  
AS A *PAR EXCELLENCE* PARADOXICAL STRATEGIC QUESTION  
257-286

KOSOVO AND METOHIA ISSUE  
PROJECT PROPOSAL  
287-294

EUROPEAN UNION OR EUROPEAN UNIONS?  
THE BALKANS  
UNDER GLOBALIZATION AND (RE?)EUROPEANIZATION  
295-320



INTERDEPENDENCE AND STRUCTURAL CHANGE:  
SOME TENDENCES  
IN YUGOSLAV ECONOMIC DEVELOPMENT

*To professor Henry J. Bruton (1921–2013)*  
*my mentor*



# CONTENTS

Tables

6

Figures

7

Abbreviations

7

*Part One*

INTERDEPENDENCE

9–42

A

Structural Interdependence

11–33

B

The Importance of Interdependence in  
Production for Investment Decisions

34–42

*Part Two*

STRUCTURAL CHANGE

43–101

A

A Causes of Variations in Input Coefficients

45–47

B

Changes in Intermediate Inputs

48–72

B 1	General Inputs	53-54
B 1 a	Energy Sectors	54
B 1 b	Transportation	55
B 1 c	Chemicals	55-61
B 2	“Competition” Among Basic Materials	62-72
C	Destination of Output	73-78
D	Changing Primary Inputs	78-85
E	Changing Import and Export Patterns	86-93
F	Changes in the Composition of Final Demand and Output	93-95
G	Structural Change and Economic Growth	95-101

## CONCLUDING REMARKS

103–106

## GLOSSARY

107

## APPENDIX

108–112

## REFERENCES

113–116

## AUTHORS INDEX

117

## SUBJECT INDEX

118–119

## TABLES

I-1	Proportion of Intersectoral Transactions to Total Production ( $u$ ) and Total Demand ( $w$ )	14
I-2	“Indices of Depth” of the Yugoslav Economy	15
I-3	Imports According to Allotment	17
I-4	Backward Linkage in the Yugoslav Economy	20
I-5	Forward Linkage in the Yugoslav Economy	23
I-6	Combined Linkages in the Yugoslav Economy	26
I-7	Degree of Interdependence in the Nigerian Economy, 1959-60	29
I-8	Average Degree of Interdependence of Economic Sectors in Italy, Japan and the United States	30
II-1	Direct and Total Intermediate Input Coefficients, 1962 and 1968	49
II-2	Intermediate Output Requirements for Delivering Total 1968 Final Demand with 1962 and 1968 Technology	52
II-3	Destination of Output, by Use, 1962 and 1968	74
II-4	Dependence of the Sectors on the Individual Components of Final Demand, 1962 and 1968	76
II-5	Direct Primary Input Coefficients, 1962 and 1968	79
II-6	Total (Direct and Indirect) Primary Input Coefficients, 1962 and 1968	80
II-7	Indices of Labor Productivity and Real Personal Incomes in Manufacturing	82
II-8	Contribution of Primary Inputs to Final Uses (Gross Domestic Product), 1962 and 1968	84
II-9	Final Use, by Primary Input Components, 1962 and 1968	85
II-10	Imported Intermediates Inputs Coefficients, 1962 and 1968	87
II-11	Share of “Competitive” Imports in Total Final Use, 1962 and 1968	88
II-12	Destination of Direct Final Imports, 1962 and 1968	90
II-13	Share of Direct Final Imports in Individual Components of Total Final Demand, 1962 and 1968	90
II-14	Contribution of Imports to Individual Final Use Categories	90
II-15	Contribution of Individual Sectors to Total Exports, 1962 and 1968	91
II-16	Exports According to Degree of Finish	92
II-17	Contribution of Individual Sectors to Final Demand and to Total Gross Output, 1962 and 1968	93
II-18	Average Annual Rate of Growth of Social Product by Main Sectors	95
II-19	Sources of Growth of Real National Income in the USA	98



## FIGURES

I-1	Proportion of Total Production for Intermediate Use in Relation to Level of Income .....	13
I-2	Degree of Interdependence of Economic Sectors in the Yugoslav Economy in 1962 .....	32
I-3	Degree of Interdependence of Economic Sectors in the Yugoslav Economy in 1968 .....	33
I-4	Combined Linkages for 1962 and 1968 .....	42
II-1	Direct Coal Coefficients for 1962 and 1968 .....	56
II-2	Direct Electricity Coefficients for 1962 and 1968 .....	57
II-3	Direct Crude Petroleum Coefficients for 1962 and 1968 .....	58
II-4	Direct Transportation and Communication Coefficients for 1962 and 1968 .....	59
II-5	Direct Chemicals Coefficients for 1962 and 1968 .....	60
II-6	Direct Wood Coefficients for 1962 and 1968 .....	63
II-7	Direct Rubber Coefficients for 1962 and 1968 .....	64
II-8	Direct Aluminium Coefficients for 1962 and 1968 .....	67
II-9	Direct Plastics Coefficients for 1962 and 1968 .....	68
II-10	Direct Iron and Steel Coefficients for 1962 and 1968 .....	69

## LIST OF ABBREVIATIONS

*AER* = *American Economic Review*  
 FIS = Federal Institute for Statistics (Belgrade)  
 n. e. s. = not elsewhere specified  
 SMP = social marginal productivity  
 UP = University Press



*Part One*  
INTERDEPENDENCE



A  
STRUCTURAL INTERDEPENDENCE<sup>1</sup>

Economic growth, in the sense of increasing *per capita* income, is a result of various factors, with structural transformation of the economy being one of the most important. Structural changes may be defined generally as changes in input and output coefficients. Intersectoral (input-output) structure changes over time due to factors such as, for example, changes in relative prices, changes in the scale of production, new technology, etc. Particularly the role of inventions and their application – in short innovations – has long been recognized as a forerunner and harbinger of structural change and as an engine of economic development by economic historians and theorists alike.

But analysts of economic structure and its change were handicapped by a lack of tools for dealing with the repercussions of the changes (“chain reaction”) throughout the economy, until the appearance of W. Leontief’s apparatus of input-output analysis, which has shown itself quite suited for the purpose<sup>2</sup>. After the appearance of his pioneering work, much data has been collected on the existing economic structures in various countries. All those data and studies shed new light on an old truth (pointed out two hundred years ago by Adam Smith): the higher the level of economic development, the higher the degree of *interdependence* (specialization) among different sectors of the economy. So, the fact that a very high proportion of cells in the input-output matrices of the least developed countries are blank (empty) shows that there is hardly any significant interconnection between certain sectors of the economy. The table which was prepared by D. Seers and C.

- 
- 1 Structural interdependence means interdependence in the input-output (inter-industrial) sense. This qualifying clause is needed, as it is possible to have extensive division of labor and, therefore, interdependence in the final demand, in an economy that shows very little “structural” interdependence.
  - 2 The other concepts of the structural change (see Part Two, Chapter G, in this study) contribute much toward our understanding of the problem, but they are less operational and therefore less relevant for the purpose of this research.

R. Ross for the former Gold Coast is quoted in [42] as an example of this lack of interdependence, where only three of the 30 elements included in the productive matrix contained figures of any statistical significance. It was also shown that the productive sectors received inputs worth £4.2 million, out of a total domestic production of £59.7 million. The case of former Tanganyika was by no means less depressing: T. Peacock and M. Dosser [42] found that the interdependence was quite weak and illustrated their point by showing that it was possible to fill no more than 23 cells of the interflow matrix out of the total 306. Moreover, deliveries from domestic production to intermediate consumption were only £8.3 million as compared to £181.6 million delivered to final demand. Cyprus is another example that illustrates the said general tendency. The two tables (for 1954 and 1957) prepared by S. Vassiliou [57] show a significant structural relationship between the productive sectors.

In the long run, generally speaking, it is normal to expect that the intersectoral structure will evolve in the direction of greater complexity. Chenery [9] shows that as *per capita* income rises a number of changes take place, whose combined effect is to increase intermediate demand for manufactured goods very rapidly:

(a) Final demand for industrial goods (for consumption and investment) increases rapidly, with an average income elasticity of 1.35.

(b) Factory production replaces handicraft methods, producing an increase in demand for machinery and other producer goods; and

(c) Domestic production of industrial goods replaces imports (regardless of whether import substitution is a natural or forced process), and industrial output therefore rises more rapidly than total demand.

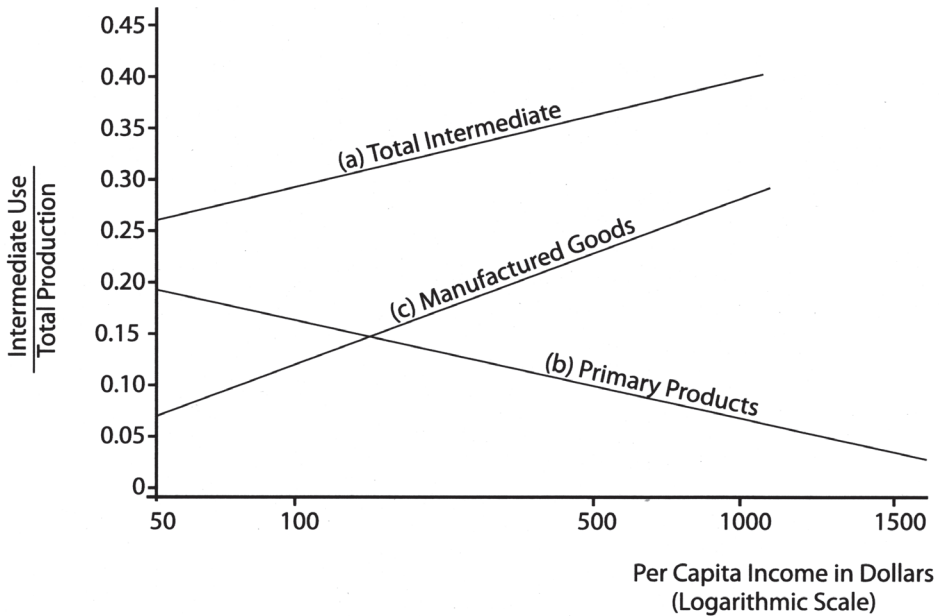
These factors result in a combined elasticity of industrial output relative to income level of about 1.9 at income levels below \$200 and of about 2.3 for investment goods and intermediate products. The effects of industrialization on intermediate demand are summarized in the regression lines (*Figure I-1*) for a sample of countries at various income levels.

Equations for the regression lines shown are:

$$(a) \frac{\text{Total Intermediate Demand}}{\text{Total Production}} = W_T = 0.1038 + 0.0869 \log Y \\ (0,0177) \quad (0.0110)$$

$$(b) \frac{\text{Primary Intermediate Demand}}{\text{Total Production}} = W_1 = 0.3275 - 0.930 \log Y \\ (0,0433) \quad (0.0268)$$

Figure I-1 Proportion of Total Production for Intermediate Use in Relation to Level of Income



$$(c) \frac{\text{Manufactured Intermediate Demand}}{\text{Total Production}} = W_M = 0.1718 - 0.91378 \log Y$$

(0,0516) (0,0319)

where  $Y$  is *per capita* income. Based on data from [61].

An increasing share of intermediates in total production illustrates an increasing degree of “indirectness” of production [8] or, in other words, represents a “deepening” of the productive process. Therefore, the production of intermediate commodities (as a portion of total production) is termed by M. Bruno [3] as an *index of depth*. “Index of depth” provides an important measure of the interdependence of productive sectors in the general framework of economic transactions. To a certain extent, this measure may also serve as an indicator of the degree of industrial development of a modern economy. In this connection it is of interest to compare the data on the economic structure of a number of countries for which input-output tables exist.

The share of intersectoral transactions in total economic transactions can be measured by the coefficient  $u = U/X$ , where  $U$  = purchased (inter-

mediate) inputs,  $X$  = total production value, or, similarly, by coefficient,  $w = W/Z$ , which denotes the ratio of intermediate to total demand. Of course, for the economy as a whole,  $u$  and  $w$  amount to the same thing, if we make allowance for foreign trade (by definition total input of domestic intermediates is equal to the total output of domestic intermediates). These coefficients are shown in *Table I-1*. It must be borne in mind, however, that these comparisons are of global and superficial character, since the tables of transactions differ in respect to sectoral classification, the grouping of activities in sectors and the system of valuation.

*Table I-1* PROPORTION OF INTERSECTORAL TRANSACTIONS TO TOTAL PRODUCTION ( $u$ ) AND TOTAL DEMAND ( $w$ )

	Country	Year	$u$	$w$
1	Finland (a)	1959	62.89	58.54
2	Japan (b)	1960	55.74	53.28
3	Japan (b)	1955	53.62	51.39
4	Japan (c)	1951	48.70	46.10
5	Hungary (d)	1961	53.27	42.98
6	U.S.S.R. (e)	1959	51.95	50.40
7	Italy (c)	1950	43.80	41.10
8	U.S.A. (c)	1947	42.60	41.90
9	Israel (f)	1958	39.00	
10	Norway (c)	1950	36.40	30.40
11	Egypt (g)	1954	27.50	26.04
12	Nigeria (h)	1959-60		13.44
13	Ghana (formerly the Gold Coast) (i)	1955	7.35	
14	Tanganyika (i)	1956		4.32

Sources:

- |                  |                  |                                     |
|------------------|------------------|-------------------------------------|
| a) Based on [20] | d) Based on [41] | g) Based on [17]                    |
| b) Based on [50] | e) Based on [55] | h) Calculated from the data in [52] |
| c) From [8]      | f) From [3]      | i) Based on [42]                    |

What is the degree of interdependence of productive sectors within the Yugoslav economy? It differs over the 10-year period (1958-1968) for which reliable data exists. Both  $u$  and  $w$  ratios are calculated and presented in *Table I-2*.



Table I-2 “INDICES OF DEPTH” OF THE YUGOSLAV ECONOMY

	1958	1962	1964	1966	1968
u	52.300	50.719	48.904	48.743	48.717
w	46.262	45.404	44.119	43.036	43.331

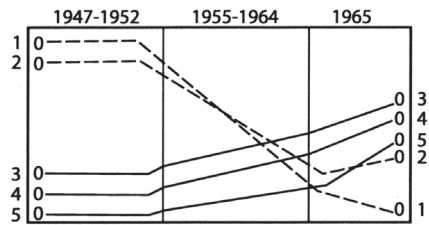
Sources: [65], [66], [67], [68], and [69].

As far as *level* is concerned, the figures demonstrate the considerable importance of intermediate commodities in the productive structure of the Yugoslav economy. The declining *trend*, however, in the light of the previous discussion looks very puzzling. Does that mean that the “deepening” process of the Yugoslav economy lost vigor between 1958–1968? And is the process of diversification always desirable in itself? There are quite a number of instances where *import substitution* (or, to be more precise, deliberately planned import substitution, i.e., import substitution as a policy, not as a natural, spontaneous process) raises rather than lowers production costs. In the case of Yugoslavia, however, the import substitution hypothesis alone cannot explain the phenomenon of declining “indices of depth” because of the fact that Yugoslav foreign trade policy (until the 1950s) was a passive reflex and deductive value from the fundamental categories and determinants of the entire Yugoslav economic and social development<sup>3</sup>.

The period from 1945 to 1951 represents a good example of how the foreign trade policy was determined by the basic features of the socio-economic system. Rigid central planning in that period implied a state monopoly in foreign trade. The domestic market was almost completely cut off from the outside world. The whole sector of foreign trade was treated more as a “necessary evil” than as a factor of economic development. Simply put, at that time it was considered important to, at any cost, manufacture goods within

3 From D. Gorupić’s [22] diagrammatic representation we can see how the relative weight of the individual elements of the Yugoslav economic system has been changing in the post-WWII period.

1. The Directive and Organizational Role of the State
2. The Plan
3. The Market
4. Enterprise Autonomy
5. Self-Organization of the Economy



the country instead of importing them, with export being considered of secondary importance.

By the middle of 1951, however, new economic thinking reached the sector of foreign trade. Simultaneously with a general policy of decentralization, a foreign trade policy which would be consistent with a “socialist planned-market economy” was initiated. After 1952, the country was no longer driven by a desire for autarky or self-sufficiency. Instead the opposite appears to be the case. There was apparently a desire to participate in the international division of labor.

How and why did this happen? A high rate of economic growth in a predominantly closed economy deficits at many points of the reproduction process disrupted the structure of supply and demand and unmasked the economy’s supposedly high profitability. Namely, the forcing of domestic production at all cost stimulated investment in numerous branches of the economy, each of which produced minimal product quantities, which made it impossible for optimum cost to be achieved, and at the same time created new demand for agricultural products, raw materials and certain intermediary (semi-finished) goods, thus putting increased pressure on the balance of payments. So, this policy of self-sufficiency had a boomerang effect by increasing demand for all imports, particularly for imports of “goods for reproduction purposes” (i.e., intermediates). With an accompanying stagnation of exports, the country’s foreign debt increased, which inevitably led to an increased *export orientation*. And export did increase. For example, from 1955 to 1968, exports increased 3.5 times, which was twice the world’s export growth rate.

Although exports increased rapidly, imports surged ahead at an even faster pace. The increasing tempo of (diversified) domestic economic activity manifested itself in rising imports. The *composition* of imports lends very strong support to our explanatory hypothesis. Namely, the role of *imported intermediate goods* grew in importance. From 1947 to 1951 the volume of imports of raw materials and semifinished goods averaged only about 7 percent above the prewar level. During 1952–56 this import category increased at an average of about 17 percent. In 1957–59, at the beginning of the period in which we are more interested, the category of raw materials and semifinished goods expanded by about 77 percent relative to 1952–56, etc. Over the 1955–59 period the value of imports of “goods for reproduction purposes” (consisting of raw materials and semi-manufactured goods, fuel and manu-

factured goods designed for reproduction) increased as follows (in millions of dinars, current prices):

1955	1958	1962	1964	1966	1968	1969
675.49	1072.17	1442.63	2482.13	11333.9	12779.1	16057.2

Source: [76], p. 207; [75], p. 206.

However, the value of imported reproduction goods did not increase only absolutely, it increased also relatively, as a percentage of total imports (Table I-3).

Table I-3 IMPORTS ACCORDING TO ALLOTMENT

	1955	1958	1962	1965	1966	1968	1969
Goods for Reproduction Purposes	51	52	54	62	58	57	61
Investment Goods	20	24	25	22	22	25	22
Consumer Goods	29	24	21	16	20	18	17
Total Imports	100	100	100	100	100	100	100

Source: [76], p. 207; [75], p. 206.

This was partially a result of the import liberalization policy which was introduced in 1951. Since then, the Yugoslav economy gradually became more exposed to competition from abroad. The next two steps towards greater liberalization were undertaken in 1961 and 1965. The customs system was introduced in 1961, with the following characteristics: there was no protection for agriculture and timber, with 10–40 percent protection for consumer goods and 17–60 percent protection for equipment and other industrial products. About one fifth of imports were liberalized. One of the elements in the 1965 Economic Reform strategy was the lowering of tariff protection from 23.3 percent to 10.5 percent, with the traditional differentiation of rates from 5 percent for primary commodities to 21 percent for consumer goods [15]. The fact that *sectors which produce final goods are better protected* contributes to their faster expansion, and their need for intermediates very often exceeds existing domestic supply of intermediates. Therefore, there exists great pressure to import them. Parallel with the relatively large

diversity within the group of sectors which produce final goods, particularly consumer goods (inherited, very persistent all-kind-of-things production structure, from the period of a dominant import substitution policy, plus relatively newer branches created under the ‘infant’ industry umbrella<sup>4</sup>, e.g., numerous automobile assembly plants), there is a reproduction goods sector that is rather unattractive in some cases (not only because of the lack of stimulative policy measures but because of the other reasons as well – e.g., high cost of production due to the quality deterioration of certain ores, etc.), less diversified, relatively lagging in spite of increasing demand for its products. As early as 1963, L. Vukojević [58] warned of the lagging of domestic production of intermediate goods, particularly primary intermediates. Towards the goal of a more complete view of this problem, two more things should be added to everything already said regarding the lagging of the intermediates sector. First, it is necessary to say that no matter how high the level of domestic production of some intermediate sectors is, it cannot meet the processing industries’ demand (cases in point: natural rubber, quality iron ore, crude oil, cotton, coking coal, etc.). Secondly, all this discussion about the lagging intermediate sector is by no means a plea for greater protection for this sector<sup>5</sup>, because the following of protectionist policies (in general, and not only with regard to one particular sector) has almost always resulted in higher prices, a domestic product of inferior quality, excess capacity in the import-competing industries, etc.

\*\*\*

It should be obvious (see *Table I-1*) that the greater the share of intermediates in the total production (demand), the greater the importance of input-output tables. If all production were “direct” in the sense that each plant produced a finished product from primary inputs alone, there would be no need for interindustry analysis. Our first aim was to ascertain the degree to which production in the framework of the *economy as a whole* is in fact “indirect.” Let us turn, now, to a somewhat lower level of aggregation – to the *sectors*. A measure of indirectness (with regard to final use) for each sector is provided by the extent to which it purchases inputs from the other sectors, or, alternatively, by the extent to which it sells its output for further use in production.

4 Called popularly “screw-driver” industries. See: “enclave import industries” discussion, p. 48.

5 The general question of effective protection cannot be treated here thoroughly.

The ratio of purchased inputs  $U_j$  to the value of total gross production  $X_j$  of the sectors

( $u_j = \frac{U_j}{X_j}$ ) and the ratio of intermediate ( $W_i$ ) to total demand ( $Z_i$ ) for the sector  $s$

$i$  product ( $W_i = \frac{W_i}{Z_i}$ ) have been referred to by A. Hirshman [23] as *backward* and *forward linkages*. To show the extent to which there is a common pattern in the relations between different sectors and between differently developed countries two *tables* (I-7 and I-8), one for typical underdeveloped countries and another for a group of typically developed countries, are reproduced here. The tables also serve the purpose of comparisons between the structural characteristics of the Yugoslav and Nigerian economy, on one hand, and economies of Japan, Italy and U.S.A., on the other hand.

The tables show different intensities of contact among sectors on both the *demand side* and the *supply side*. Chenery and Watanabe [5] invested a lot of effort in attempts to discover the extent to which there is a common pattern in the relations between different sectors. They classified the sectors according to  $u$  and  $w$  ratios using two-way classification for each ratio, based on whether the values of  $u$  and  $w$  are above or below their mean values<sup>6</sup> (mean value of  $u$  and  $w$  are calculated as an average from Japanese, Italian and U.S. weighted mean values of  $u$ 's and  $w$ 's). Their results are shown in *Table I-8*. In this table, the word "final" describes sectors with low values of intermediate use (low  $w$ ), and the word "primary" is used for sectors with low values of  $u$  (i.e., high value added)<sup>7</sup>.

6 The identical calculations are carried out for Yugoslavia and presented in diagrammatic form in *figures I-1* and *I-2*. As is expected, all sectors do not fit into Chenery's classification of types (these divergent sectors are accompanied by arrows which show which quadrant they "are" to be in), because, first, we are dealing here only with *one* country, whose structure does not necessarily have to be typical, and *one* year (1962 and 1968 respectively; calculating the mean values of these two – or more – years would probably improve the result). Secondly, we should not disregard the fact of differences in the level of development between Yugoslavia and the group of countries mentioned; different levels, certainly, imply different structures as well.

7 There is a close relationship between this classification and that of Colin Clark [24], which distinguishes "primary," "secondary" and "tertiary" sectors. For more detailed comparison, see: [5].

Table I-4 BACKWARD LINKAGE IN THE YUGOSLAV ECONOMY

Sector	1962	1968
72. Livestock Breeding	99.071	74.592
59. Fruit and Vegetable Processing	75.401	70.923
58. Livestock Slaughter and Meat Processing	75.165	71.344
52. Leather and Fur	74.868	78.006
3. Coke and Gas	74.288	74.438
64. Foodstuffs, n.e.s.	72.895	82.140
28. Shipbuilding	69.221	62.525
53. Leather Footwear	67.499	64.035
54. Leather Fancy Goods	66.522	63.133
50. Clothing	66.148	66.152
61. Sweets and Cocoa Products	64.927	69.308
41. Paper Products	64.135	67.726
30. Electrical Apparatus for Household Use	62.871	63.753
11. Rolling Mills of Non-Ferrous Metals	62.480	78.104
10. Non-Ferrous Metals, n.e.s.	67.546	58.400
62. Vegetable Oils and Fats	61.210	64.565
42. Timber and Boards	60.184	60.714
43. Final Wood Products	60.069	57.811
76. House Building	59.867	60.990
60. Sugar	58.411	81.186
20. Building Materials, n.e.s.	58.339	56.959
37. Soap and Cosmetics	57.664	59.787
49. Knitted Goods	56.778	52.286
45. Hemp and Flax Fiber	56.654	58.503
16. Processing of Non-Metals, n.e.s.	54.699	52.677
29. Electrical Machinery and Apparatus	54.618	48.742
19. Cement	53.684	52.288
80. Sea-Borne Shipping	52.827	47.933
44. Chemical Wood Products	52.824	53.537
21. Metal Semi-Products	52.678	55.378
5. Crude Petroleum Products	52.517	70.334

Sector	1962	1968
38. Plastics Articles	52.026	63.713
51. Textile Products, n.e.s.	51.944	61.047
39. Chemicals, n.e.s.	51.913	55.604
55. Rubber	51.800	53.793
25. Rail Vehicles	51.542	41.995
27. Metal Products, n.e.s.	50.555	52.039
77. Civil and Hydraulic Engineering	50.213	41.654
9. Alumina and Aluminum	49.179	53.434
14. Refractory Materials	49.100	54.147
23. Other Machines and Equipment	48.758	47.227
69. Miscellaneous Industries	48.383	57.927
92. Electrotechnical Services & Repairs	47.624	43.616
31. Cables and Conductors	47.388	55.542
91. Metal Processing Services & Repairs	47.133	46.360
34. Non-Organic and Organic Chemicals	46.867	36.396
57. Bread and Pastes	46.771	39.570
22. Agricultural Machines	46.355	65.025
35. Plastic Materials and Fibers	48.824	52.833
78. Handicrafts for Construction Industry	45.765	47.806
33. Electrical Products, n.e.s.	45.692	57.615
32. Radio & Telecommunication Equipment	45.163	41.576
82. Air Transport	43.949	24.587
15. Porcelain and Ceramics	43.585	40.060
81. River and Lake Transport	42.895	29.587
24. Machines and Equipment, n.e.s.	42.234	42.481
36. Handicraft Services, n.e.s.	42.026	45.352
79. Railway Transport	41.089	30.542
13. Glass	4.083	47.295
63. Alcohol and Beverages	40.942	49.566
67. Printing, Publishing and Allied Industries	39.793	30.992
46. Cotton Yarn and Fabrics	39.753	43.005
40. Paper and Cellulose	38.902	48.964

Sector	1962	1968
23. Road Transport	38.617	37.833
47. Woolen Yarn and Fabrics	37.893	35.902
48. Yarn and Fabrics, n.e.s.	37.24	37.666
66. Tobacco Manufactures	37.121	76.837
26. Road Vehicles	36.813	38.622
25. Shoemaking Services	36.739	42.473
1. Electricity	36.333	27.139
7. Ferrous Metallurgy	35.957	31.896
65. Fermented Tobacco	35.765	69.185
33. Wood Processing Services & Repairs	35.588	47.410
94. Tailoring Services	35.517	38.596
73. Fishing	30.135	37.444
97. Public Utilities	29.908	24.599
18. Bricks and Tiles	29.333	29.605
2. Coal	28.829	24.600
17. Stone, Sand and Lime	27.031	22.248
36. Pharmaceutical Products	26.302	30.315
68. Motion Picture Production	26.693	14.023
56. Milling of Cereals	23.789	25.718
8. Non-Ferrous Metallic Ores	23.315	17.467
12. Non-Metallic Minerals	21.823	25.641
89. Storage and Trade Services	21.752	18.532
84. Communications	18.047	14.131
90. Catering and Tourism	16.339	16.027
6. Iron Ore	15.090	11.591
4. Crude Petroleum and Natural Gas	14.331	12.898
85. Transshipment and Other Services	14.066	14.989
87. Wholesale Trade	13.704	9.396
86. Retail Trade	11.867	6.081
24. Forestry	11.824	11.397
70. Crop Farming	10.560	14.830
88. External Trade	9.510	9.074



Sector	1962	1968
75. Construction Design	8.283	9.746
7. Fruit Growing and Viticulture	2.159	4.992
98. Scrap and Waste	0	0

Sources: [66], [69].

*Table I-5 FORWARD LINKAGE IN THE YUGOSLAV ECONOMY*

Sector	1962	1968
18. Bricks and Tiles	99.41	96.24
38. Scrap and Waste	96.52	89.94
3. Coke and Gas	95.45	95.12
17. Stone, Sand and Lime	94.18	92.85
41. Paper Products	92.19	90.21
4. Crude Petroleum and Natural Gas	88.29	88.43
19. Cement	87.78	94.29
78. Handicrafts for Construction Industry	87.46	59.74
16. Processing of Non-Metals, n.e.s.	85.94	78.62
33. Electrical Products, n.e.s.	84.02	57.64
20. Building Materials, n.e.s.	83.78	85.92
35. Plastic Materials and Fibers	83.67	79.13
2. Coal	82.22	77.78
1. Electricity	77.72	60.46
34. Non-Organic and Organic Chemicals	77.49	64.31
9. Alumina and Aluminum	77.41	66.86
21. Metal Semi-Products	76.89	80.70
91. Metal Processing Services & Repairs	76.32	58.99
52. Leather and Fur	76.19	84.03
74. Forestry	73.62	68.45
92. Electrotechnical Services & Repairs	71.26	55.66
5. Crude Petroleum Products	70.78	77.46
85. Transshipment and Other Services	69.64	74.95
40. Paper and Cellulose	69.59	57.35
42. Timber and Boards	69.12	67.97
11. Rolling Mills of Non-Ferrous Metals	66.28	54.53

Sector	1962	1968
12. Non-Metallic Minerals	66.72	72.51
39. Chemicals, n.e.s.	66.09	62.65
14. Refractory Materials	65.04	64.60
15. Porcelain and Ceramics	63.53	52.41
10. Non-Ferrous Metals, n.e.s.	63.01	54.91
44. Chemical Wood Products	58.80	60.31
55. Rubber	58.25	64.90
45. Hemp and Flax Fiber	56.66	83.14
13. Glass	56.40	57.65
70. Crop Farming	55.96	51.81
73. Fishing	51.35	38.45
8. Non-Ferrous Metallic Ores	50.71	53.23
48. Yarn and Fabrics, n.e.s.	49.82	58.01
7. Ferrous Metallurgy	49.77	53.64
96. Handicraft Services, n.e.s.	48.87	48.12
79. Railway Transport	47.83	43.89
6. Iron Ore	45.87	91.78
84. Communications	44.29	46.94
25. Rail Vehicles	42.07	32.34
87. Wholesale Trade	41.25	49.98
42. Woolen Yarn and Fabrics	40.44	44.10
83. Road Transport	39.32	41.58
65. Fermented Tobacco	39.19	43.95
31. Cables and Conductors	38.80	62.26
89. River and Lake Transport	36.24	54.19
29. Electrical Machinery and Apparatus	34.28	26.73
64. Foodstuffs, n.e.s.	33.49	31.83
38. Plastics Articles	33.22	34.71
43. Final Wood Products	31.05	45.84
46. Cotton Yarn & Fabrics	30.16	29.40
93. Wood-Processing Services & Repairs	29.91	19.74
88. External Trade	27.56	35.35
62. Vegetable Oils and Fats	26.51	28.51

Sector	1962	1968
97. Public Utilities	25.66	40.51
72. Livestock Breeding	23.64	23.93
67. Printing, Publishing and Allied Industries	23.39	11.38
60. Sugar	23.19	28.02
27. Metal Products, n.e.s.	17.49	14.62
77. Civil and Hydraulic Engineering	15.39	30.16
22. Agricultural Machines	14.92	17.93
86. Retail Trade	14.80	19.53
24. Fine Apparatus and Instruments	14.72	21.33
51. Textile Products, n.e.s.	14.69	21.82
23. Machines and Equipment, n.e.s.	14.48	16.69
69. Miscellaneous Industries	11.63	5.95
26. Road Vehicles	10.22	18.28
49. Knitted Goods	9.06	16.22
82. Air Transport	7.36	12.60
28. Shipbuilding	6.72	5.69
71. Fruit Growing and Viticulture	5.45	9.25
37. Soap and Cosmetics	4.78	14.79
56. Milling of Cereals	4.34	15.29
32. Radio & Telecommunication Equipment	3.76	5.54
36. Pharmaceutical Products	3.75	6.34
63. Alcohol and Beverages	3.33	1.81
30. Electrical Apparatus for Household Use	3.13	1.87
80. Sea-Borne Shipping	3.10	3.85
59. Food and Vegetable Processing	3.10	3.07
58. Livestock Slaughter and Meat Processing	3.02	2.40
76. House Building	2.53	2.46
61. Sweets and Cocoa Products	.79	.40
57. Bread and Pastes	.30	.61
50. Clothing	.30	.38
54. Leather Fancy Goods	.07	0
94. Tailoring Services	0	4.77
53. Leather Footwear	0	0

Sector	1962	1968
66. Tobacco Manufactures	0	0
68. Motion Picture Industry	0	0
75. Construction Design	0	0
90. Catering and Tourism	0	0
95. Shoemaking Services	0	0

Sources: [66], [69]

Table I-6 COMBINED LINKAGES IN THE YUGOSLAV ECONOMY

Sector	1962	1968
1. Electricity	114.05	87.60
2. Coal	111.05	102.38
3. Coke and Gas	169.74	169.56
4. Crude Petroleum and Natural Gas	102.62	101.33
5. Crude Petroleum Products	123.30	147.79
6. Iron Ore	60.96	103.37
7. Ferrous Metallurgy	85.73	85.54
8. Non-Ferrous Metallic Ores	74.03	70.70
9. Alumina and Aluminum	126.59	121.29
10. Other Non-Ferrous Metals	124.56	133.10
11. Rolling Mills of Non-Ferrous Metals	128.60	132.63
12. Non-Metallic Minerals	88.10	98.15
13. Glass	97.48	104.95
14. Refractory Materials	114.14	118.75
15. Porcelain and Ceramics	107.09	92.46
16. Other Processing of Non-Metals	140.64	131.30
17. Stone, Sand and Lime	121.21	115.10
18. Bricks and Tiles	128.74	125.85
19. Cement	141.46	146.58
20. Other Building Materials	142.12	142.88
21. Metal Semi-Products	129.57	136.08
22. Agricultural Machines	61.28	82.96
23. Other Machines & Equipment	63.24	63.92
24. Fine Apparatus and Instruments	56.55	63.81
25. Rail Vehicles	93.61	74.34

Sector	1962	1968
26. Road Vehicles	47.03	56.90
27. Metal Products, n.e.s.	67.98	66.66
28. Shipbuilding	75.94	68.22
29. Electrical Machinery & Apparatus	88.90	75.47
30. Electrical Apparatus for Household Use	66.00	69.44
31. Cables and Conductors	86.23	96.61
32. Radio and Telecommunication Equipment	48.92	47.12
33. Other Electrical Products	129.71	115.26
34. Non-Organic and Organic Chemicals	124.36	100.71
35. Plastic Materials and Fibers	129.49	131.96
36. Pharmaceutical Products	30.05	36.66
37. Soap and Cosmetics	62.44	74.58
38. Plastics Articles	82.25	98.42
39. Other Chemicals	118.00	118.25
40. Paper and Cellulose	108.49	106.31
41. Paper Products	156.33	157.94
42. Timber and Boards	129.30	128.68
43. Final Wood Products	91.12	103.65
44. Chemical Wood Products	111.62	113.85
45. Hemp and Flax Fiber	113.31	141.64
46. Cotton Yarn and Fabrics	69.91	72.41
47. Woolen Yarn and Fabrics	78.33	80.00
48. Other Yarn and Fabrics	87.06	95.68
49. Knitted Goods	65.85	68.51
50. Clothing	66.45	66.53
51. Other Textile Products	66.63	82.87
52. Leather and Fur	151.06	162.04
53. Leather Footwear	67.50	64.04
54. Leather Fancy Goods	66.59	63.13
55. Rubber	110.05	118.70
56. Milling of Cereals	28.23	41.01
57. Bread and Pastes	47.07	40.17
58. Livestock Slaughter and Meat Processing	78.19	73.74
59. Food and Vegetable Processing	78.50	73.99

Sector	1962	1968
60. Sugar	81.60	109.91
61. Sweets and Cocoa Products	65.72	69.71
62. Vegetable Oils and Fats	87.72	93.08
63. Alcohol and Beverages	44.28	51.38
64. Other Foodstuffs	106.39	113.97
65. Fermented Tobacco	74.95	113.14
66. Tobacco Manufactures	37.12	76.84
67. Printing, Publishing & Allied Industries	63.19	42.37
68. Motion Picture Production	23.69	14.02
69. Miscellaneous Industries	60.01	63.88
70. Crop Farming	66.52	66.64
71. Fruit Growing and Viticulture	27.40	14.24
72. Livestock Breeding	122.71	98.52
73. Fishing	81.49	75.89
74. Forestry	85.44	9.75
75. Construction Design	8.28	63.45
76. House Building	62.40	63.45
77. Civil and Hydraulic Engineering	65.60	71.81
78. Handicrafts for Construction Industry	133.22	107.55
79. Railway Transport	88.92	73.43
80. Sea-Borne Shipping	55.93	51.78
81. River and Lake Transport	79.10	83.78
82. Air Transport	51.31	37.19
83. Road Transport	77.94	79.41
84. Communications	62.34	61.07
85. Transshipment and Other Services	83.71	90.94
86. Retail Trade	26.67	25.61
87. Wholesale Trade	54.95	59.38
88. External Trade	37.07	44.42
89. Storage and Trade Services	58.43	80.79
90. Catering and Tourism	16.34	16.03
91. Metal Processing Services & Repairs	123.45	105.35
92. Electrotechnical Services & Repairs	118.88	98.28
93. Wood-Processing Services & Repairs	65.50	67.15

Sector	1962	1968
94. Tailoring Services	35.52	43.37
95. Shoemaking Services	36.74	42.47
96. Other Handicraft Services	90.90	93.47
97. Public Utilities	55.57	65.14
98. Scrap and Waste	96.52	89.94

Sources: [66], [69]

Note: The numbering of industries in this table is in accordance with the numbering of industries in figures I-2 and I-3 (pp. 39 and 40). Therefore, this table serves its own purpose, while at the same time playing an explanatory role with regard to figures I-2 and I-3.

Table I-7 DEGREE OF INTERDEPENDENCE IN THE NIGERIAN ECONOMY, 1959-60  
percentage

	Sector	Backward Linkage (a)	Forward Linkage (a)		Sector	Backward Linkage (a)	Forward Linkage (a)
1.	Agriculture	0	7	11.	Transport	12	21
2.	Livestock, Fishing and Forestry	1	14	12.	Utilities	28	45
3.	Agricultural Processing	58	19	13.	Trade	7	20
4.	Textiles	42	99	14.	Construction	35	3
5.	Clothing	33	1	15.	Service	7	10
6.	Drink & Tobacco	8	0	16.	Transport Equipment	14	76
7.	Food	54	0	17.	Non-Metallic Minerals	34	98
8.	Metal Mining	10	2	18.	Metal Manufacturing	18	25
9.	Non-Metal Mining	8	64	19.	Wood, Leather, Paper, etc.	37	23
10.	Chemicals	37	24	20.	Miscellaneous Manufacturing	12	63

a) Backward linkage is defined as the ratio of inputs from other industries to total output of the sector. Forward linkage is the ratio of sales to other industries to total sales.

Source: N. G. Carter in [52], Appendix.

Table I-8 AVERAGE DEGREE OF INTERDEPENDENCE OF ECONOMIC SECTORS IN ITALY, JAPAN AND THE UNITED STATES

	Interdependence through purchases from other sectors (a) (Backward Linkage)	Interdependence through sales to other sectors (b) (Forward Linkage)
<i>1. Intermediate Manufacture (u and w both high)</i>		
Iron and Steel	66	78
Non-Ferrous Metals	61	81
Paper and Products	57	78
Petroleum Products	65	68
Coal Products	63	67
Chemicals	60	69
Textiles	67	57
Rubber Products	51	48
Printing and Publishing	49	46
<i>2. Final Manufacture (u high, w low)</i>		
Grain Mill Products	89	42
Leather and Products	66	37
Lumber and Wood Products	61	38
Apparel	69	12
Transport Equipment	60	20
Machinery	51	28
Non-Metallic Mineral Products	47	30
Processed Foods	61	15
Shipbuilding	58	14
Miscellaneous Industries	43	20
<i>3. Intermediate Primary Production (w high, u low)</i>		
Metal Mining	21	93
Petroleum & Natural Gas	15	97
Coal Mining	23	87
Agriculture & Forestry	31	72
Electric Power	27	59
Non-Metallic Minerals	72	52



4. Final Primary Production ( <i>u</i> and <i>w</i> both low)		
Fishing	24	36
Transport	31	26
Services	19	34
Trade	16	17

(a) Ratio of interindustry purchases to total production (%)

(b) Ratio of interindustry sales to total demand (%)

Source: [8], p. 11.

Chenery and Watanabe's classification brings out the quite different roles played by various sectors in the total process of production. They suggested the idea of a natural hierarchy of sectors. From the fact that some products (some sectors) contribute much more to growth than others (Rostow's "leading sectors"), Canadian economic historian Innis [20] developed the "staple" theory of (economic) growth<sup>8</sup>. The process by which one product (sector) stimulates, or does not stimulate, the production of others and therefore encourages growth can be understood by looking at Hirschman's *linkages at work*. The *forward linkage effect* is found when new production makes available a large volume of cheap material, thus attracting another sector to take advantage of cheap inputs. The *backward linkage effect* occurs when an industry needs inputs and creates such a strong demand for them that new industries spring into being to satisfy it<sup>9</sup>. Staple theory goes beyond forward and backward linkages and deals with the effect of a new industry on technological change – whether it stimulates and encourages it or not – and on income distribution. On the other side, the linkages concept contributes considerably to the analysis of interdependence of investment.

8 Donald W. North [21] has applied the staple theory to the growth of the U.S. and suggested that the major forces for expansion in the early 19<sup>th</sup> century were associated with various products, some more than others i.e., wheat more than cotton.

9 Or in Hirschman's own words: "... two inducement mechanisms may be considered to be at work within the directly productive activities (DPA) sector:

1. The input provision, derived demand, or *backward linkage effects* i.e., every non-primary economic activity, will induce attempts to supply through domestic production the inputs needed in that activity.
2. the output-utilization or *forward linkage effects*, i.e., every activity that does not by its nature cater exclusively to final demands, will induce attempts to utilize its outputs as inputs in some new activities". [23], p.100.

Figure I-2 Degree of Interdependence of Economic Sectors in the Yugoslav Economy in 1962

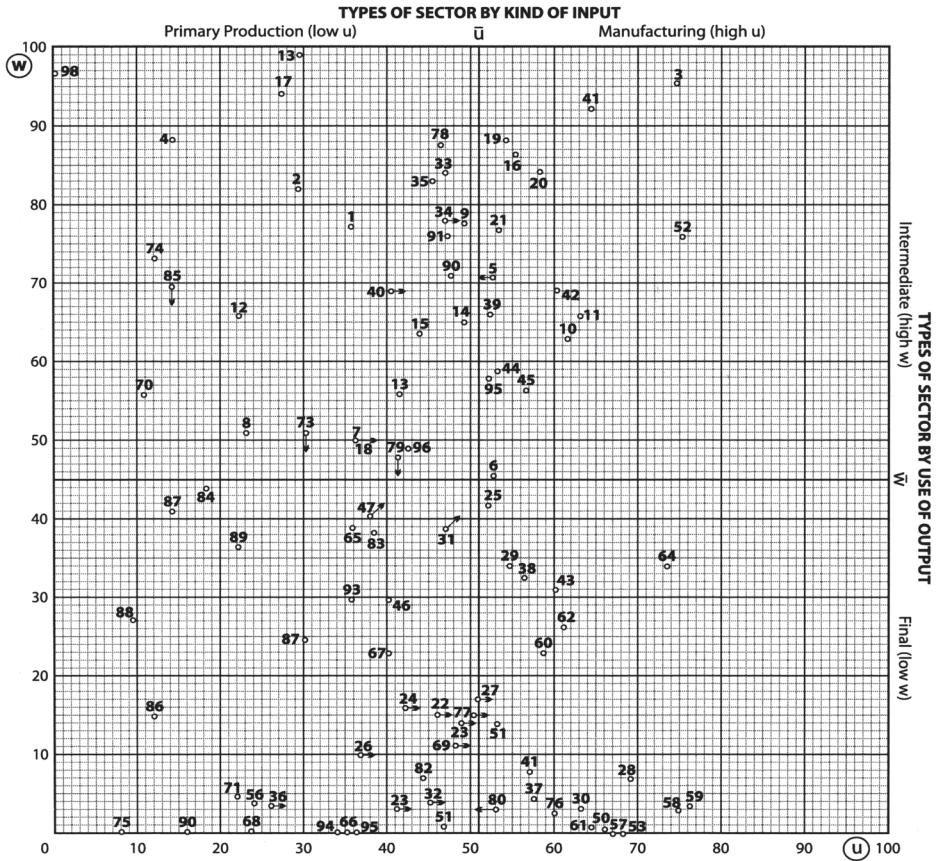
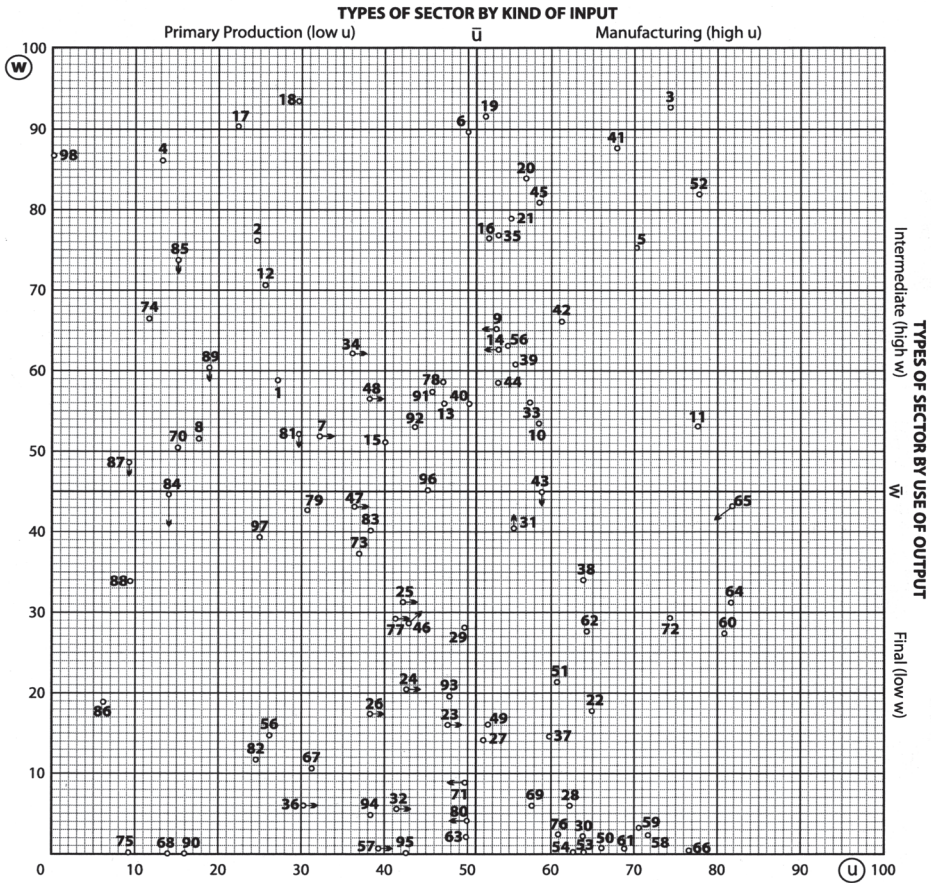


Figure I-3 Degree of Interdependence of Economic Sectors in the Yugoslav Economy in 1968



## B

THE IMPORTANCE OF INTERDEPENDENCE IN PRODUCTION  
FOR INVESTMENT DECISIONS

In order to precisely evaluate the importance of interdependence in production for investment decisions, it is first necessary to clarify the concept of interdependence among producers. Following T. Scitovsky [49] one can distinguish four types of (i.e., non-market) dependence:

1. "Interdependence of consumers' satisfaction" (the high income or consumption of others may give a person pain or pleasure).

2. Producers' direct (non-market) influence on personal satisfaction (the example of the factory that inconveniences the neighborhood with fumes or noise that emanate from it).

3. Influence on producers' output by the action of people (the example of inventions that facilitate production and become available to producers without charge).

4. "Direct interdependence among producers", better known under the name of "external economies and diseconomies"<sup>10</sup>: the output of the individual producer may depend not only on his input of productive resources but also on the activities of other firms.

If we stick to the qualifying clause introduced at the beginning (see footnote on p. 11) then, obviously, the first three types of interdependence appear to be of little interest to us. The last one, however, is of considerable theoretical<sup>11</sup> importance. Therefore, it will be useful to define direct interdependence among producers as rigorously as possible. Meade [37] gave such a definition when he defined external economies. According to him external economies exist whenever the output ( $X_1$ ) of a firm depends not only on the factors of production ( $1_1, c_1, \dots$ ) utilized by this firm, but also on the output ( $X_2$ ) and factor utilization ( $1_2, c_2, \dots$ ) of another firm or group of firms. In the symbols,  $X_1 = F(1_1, c_2; x_2, 1_2, c_2, \dots)$  the existence of external economies is indicated by

10 The term "external economies and diseconomies," or "external effects" for short – sometimes referred to as "externalities," more picturesquely as "neighborhood effects," somewhat vaguely as "side effects," and more suggestively as "spillover effects," or, "spillovers" for short – first appeared as "external economies" in A. Marshall's *Principles* in connection with a competitive industry's downward-sloping curve.

11 Not of practical importance because of the scarcity of "direct interdependence among the producers" as it is defined within the context of equilibrium theory.

the presence of the variables to the right of the semicolon. Since  $F^*$  is a production function, external economies as here defined are a peculiarity of the production function. For this reason it is convenient to call them *technological external economies* (term used by J. Viner). It should not be forgotten that the concept of technological interdependence is defined within the framework of the general equilibrium theory, which implies that the market economy leads to a situation of economic optimum (in Pareto's sense); only non-market interdependence is the villain of the piece and the cause for *conflict between private profit and social benefit* (in addition to endangering the elegance of neoclassical theory). However, in actual practice, non-market interdependence is limited to a number of rather exceptional cases, whose quantitative significance is slight.

In theory, however – especially with the development of growth theory – this concept is becoming increasingly important. It has become more widely recognized that the classical theory of resource allocation should be modified to take into account the existing conditions in underdeveloped countries. In dealing with “The Problems of Industrialization of Eastern and Southeastern Europe” [46] roughly eighty years ago (1943), Rosenstein-Rodan<sup>12</sup> suggested that a group of investments which would be *profitable* if considered *together*, might *separately* appear *unprofitable* and might not be undertaken by an individual investor who does not take advantage of external economies that may come about through the realization of individual investment undertakings<sup>13</sup>.

The difference between the Marshallian concept of “external economies” and the meaning given to this term by Rosenstein-Rodan (and other growth theorists) is obvious: in the former usage it pertains to costs and benefits of production not adequately reflected in the price mechanism; in growth theory it refers to the effect of one investment on the profitability of another. The former uses the assumptions of competitive equilibrium, while the latter acquires its significance from the assumptions of dynamic disequilibrium.

To facilitate comparison with Meades' definition of Marshallian “external economies” Scitovsky [49] expressed the concept of “external economies”

12 A number of writers have followed Rosenstein-Rodan in suggesting limitations to the applicability of the resource use in underdeveloped economies: R. Nurkse in *Problems of Capital Formation in Underdeveloped Countries* (Oxford 1953); W. A. Lewis, *Economic Development with Unlimited Supplies of Labor*, *Manchester School* (May 1953); N. W. Singer in: *Economic Progress in Underdeveloped Countries*, *Social Research* (March 1949); G. Myrdal in *Economic Theory and Underdeveloped Regions* (London 1957), etc.

13 This argument is frequently referred to as the “doctrine of balanced growth”.

by the function  $P_1 = G(x_1, 1_1, c_1, \dots; x_2, 1_2, c_2)$ , which shows that the profits of a firm depend not only on its own output and factor inputs but also on the output and factor inputs of other firms. In the context of underdeveloped countries, examined by Scitovsky, and in general, external economies are said to exist whenever the variables to the right of the semicolon are present; and, *vice-versa*: the absence of these variables indicates an absence of external economies. This definition of external economies obviously includes direct or non-market interdependence among producers, as discussed above and defined by Meade. It is much broader, however, than his definition, because in addition to *direct interdependence* among producers, it also includes interdependence among producers *through the market* mechanism. This latter type of interdependence may be called *pecuniary external economies* to distinguish it from the technological external economies of direct interdependence. The distinction between pecuniary and technological external economies has become practically irrelevant in growth theory: both of them are the cause of a possible divergence between individual profitability and social desirability. Therefore, both of them call for one or another kind of coordination of investment<sup>14</sup>. Such coordinated action which takes external economies into account, means a more or less synchronized application of capital to a wide range of different industries. Here, the result should be an overall enlargement of the market (demand side!) because as Nurkse put it, "people working with more and better tools in a number of complementary projects become each others customers"<sup>15</sup>. However, the actual situation is "a little" different: whereas the balanced-growth doctrine assumes that the relationship between industries is for the most part complementary, the limitation of factor supply (supply side!) ensures that the relationship is for the most part competitive. Therefore, it is possible (if factor supply is fixed) to have external diseconomies rather than external economies, contraction rather than expansion of output. M. Fleming [19] explained very well why this is so, de-

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- 14 H. Chenery [7] discusses three possible types of mechanisms for coordination: (i) integration under private control; (ii) the Lange-Lerner system of centrally administrated prices; and (iii) direct control of investment.
- 15 The notion of balance is inherent in Say's law: every increase in production creates or, rather, constitutes its own demand. Here in a nutshell is the case for Rosenstein-Rodan's and Nurkse's balanced growth: an increase in the production of shoes alone does not create its own demand; and an increase in production over a wide range of consumables, so balanced as to correspond with the pattern of consumers' preferences, does create its own demand.

scribing the “vertical” and “horizontal” character of connections among the industries. Fleming’s term “vertical disintegration of production” depicts the simple fact that industries buy products of other industries, and that some industries are predominantly suppliers of other industries rather than of final consumers. The balanced-growth doctrine as expounded by Rosenstein-Rodan and Nurkse primarily sees industries as acting on each other “horizontally” through the interrelated markets (final goods) which they serve or the interrelated markets in which they purchase factors of production. Understandably, we are more interested in the “vertical” relationship, but we are also concerned with the effect of this “vertical” connection on the “horizontal” one.

Namely, in industries serving final consumers, the introduction of more efficient large scale methods of production may encourage increased output in factor-producing industries if it tends to raise the prices of produced factors more, or reduce them less, than the prices of the primary factors of production used by the latter group of industries. Now, as a matter of fact, the types of technical changes associated with the substitution of large-scale for small-scale production not only tend to raise the demand for capital relative to labor but also to raise the demand for intermediate products as compared to primary factors as a whole.

The expansion of output in a producer-goods industry (provided that it involves an increase in net product) will also tend to increase the profitability of other industries in general; and the “vertical” type of external economies will, of course, enhance real national income just as surely as the “horizontal” type, with the increase probably being greater in the former than in the latter case. As Fleming demonstrated, there can be little doubt that the conditions for “vertical” transmission of external economies – whether *forward* from supplying industry to using industry, or *backward* from using industry to supplying industry are much more favorable than conditions for a “horizontal” transmission between industries at the same stage of (final) processing. Therefore, developments in industries at the initial stages of production are more likely to afford each other mutual support than those at the final stage, which were the focus of attention of the balanced-growth doctrine (in Rosenstein-Rodan’s and Nurkse’s formulation) at the very beginning of its development. Later the protagonists of the balanced-growth doctrine started to deal with both the horizontal and the vertical aspect of the “complementarity” problem and Nurkse himself in his second Istanbul Lecture (1958) even

came out in favor of unbalanced growth (vertical imbalance) as far as intermediate markets are concerned. As far as horizontal balance is concerned, however, he retained his old view that the case “rests on the need for a ‘balanced diet.’”

However, A. Hirschman [23] asserts that neither balance in demand nor balance in supply is required for successful economic development. From the existence of interrelatedness in an economy, however, he does not draw the balanced growth conclusion that a *simultaneous attack* is essential. Quite the opposite: according to Hirschman, what might be called a *sequential* or chain solution is what is required<sup>16</sup>. If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibria, because these are the situations that reveal the most obvious profit opportunities. If certain sectors of the economy are growing rapidly, it is due to the existence of bottlenecks in the complementary sectors which *create pressures* on the growth of the former, forcing investment to be made. The areas which lead the development should be so selected that investments in the complementary areas are really *compulsive* rather than *permissive*.

The difference between “permissive” and “compulsive” sequences is illustrated by reference to *social overhead capital* (SOC) and *directly productive investment* (investment in directly productive activities – DPA). Hirschman points out that investments in infrastructure (SOC) are basically permissive of direct investment, i.e., they are dependent on direct producing investments. In situations where investment motivations are deficient<sup>17</sup>, it therefore seems safer to rely on development *via* shortage (bottlenecks) than on development *via* excess infrastructure capacity.

In analogy to the alternative between development *via* shortage and development *via* excess capacity described for the SOC–DPA situation, two inducement mechanisms may be considered to be at *work within the DPA sector*: they are the already mentioned backward and forward linkage effects. *The linkage concept* itself implies both the potential *importance* of the linkage

16 In attempting a different approach (“Efficient Sequences against Investment Criteria”) Hirschman draws a distinction between *substitution choices* and *postponement choices*: in any choice between project A and project B, if the decision favors A this may mean either that B is *discarded permanently* or that it is *postponed*. In deciding substitution choices, the usual investment criteria (SMP) retain considerable usefulness. Considering postponement choices more relevant, Hirschman deals only with them in trying to find out the efficient sequence (AB or BA, etc.).

17 In general, the problems of motivation and decision-making play a very important role in Hirschman’s development strategy.



effect in terms of, say, the net output of the industries ( $x_i$ ) that might be called forth and the *strength* of the effect, i.e., the probability ( $p_i$ ) that these industries will actually come into being. The total effect could be measured by the sum of the products of these two elements (the total linkage effect of a certain industry  $W_i = \sum_i x_i p_i$ ). If the  $x$ 's are small and the  $p$ 's large then we are dealing with so called *satellite industries*. They are almost unfailingly established in the wake of a so called *master industry*, but are not especially significant for it.

Even in the case of non-satellite types of linkage, in spite of their importance, it seems necessary to provide for some arbitrary cut-off point for small probabilities ("We should consider only those stimuli whose probability exceeds a certain critical value, say one-half"). If we proceed in this way, the joint linkage effects of two industries considered as a unit are likely to be larger than the sum of their individual linkage effects. This fact helps to account for the *cumulative* character of development. The problem is now simply formulated: how are linkage effects maximized?

As a first step it is instructive to calculate  $u$  and  $w$  ratios of various economic sectors with the aim of appraising the intensity and the kinds of linkage effect these sectors exert<sup>18</sup>. Further steps should provide answers to the following questions: What are the structural characteristics of the main sectors? Which sectors do not deserve high rank in development programs and which sectors are preferable as further development stimuli?

Agriculture in general is of course characterized by a scarcity of linkage effects. By definition, all primary production should exclude any substantial degree of *backward* linkage. *Forward* linkage is also weak in agriculture and mining, which explains Hirschman's view on the inferiority of agriculture to manufacturing. Besides, in his opinion, the lack of direct stimuli to the establishment of new sectors through the linkage effect may be one of the most important arguments against specialization of underdeveloped countries in primary production, which, due precisely to these sectors' said characteristics, leads to so-called *dual-type development*. On the opposite side of such "enclave" (mines and plantations) type development stands dual-type deve-

18 The interdependence ratios of the table (and of the figures) are very rough indices of the potential linkage effects. A more refined measure of backward linkage can be obtained by considering the *inverse* of the input-output matrix. This inverse matrix makes it possible to estimate the *direct* and *indirect* repercussions of an increase in final demand requirements for any one industry on the other sectors of the economy. Danish economist P. N. Rasmussen has proposed the measure derived from the inverse matrix – he calls it "power of dispersion" – as one way of identifying "key industries"; see [45], pp. 133–142.

lopment, through plants that perform “the final touches” (Hayek) on almost finished industrial products imported from abroad (such as, for example, automobile assembly, packaging, etc.)<sup>19</sup>. Such industries could be termed “enclave import industries” in analogy to the enclave export activities previously mentioned.

What are then, the highest ranking sectors from the point of view of combined backward and forward linkage effects? In this combination Hirschman attributed more importance to backward than to forward linkage, because forward linkage could never occur in pure form: it must be always accompanied by backward linkage, which is the result of the “demand pressure.” While forward linkage cannot therefore be regarded as an independent inducement mechanism, it acts as an important and powerful reinforcement to backward linkage. Investment decisions that are taken on the basis of the effects of both backward and forward linkages symbolically referred to as “pincer effects” – deserve high marks in Hirschman’s view. How are such pincer movements engineered in the course of economic development? Hirschman points out that “they are somewhat difficult to visualize on the basis of the traditional concept of stages of production” where the successive stages are further and further removed from final consumption. But this concept is unrealistic, as has been shown by input-output analysis. Many industries produce *intermediate goods* for other industries and *final demand* products at the same time. Thus it is quite possible for industry A to be established as a result of final demand for its products crossing the threshold (critical value!) and then for B to follow on it not only because of demand factors but also because B intends to use A’s products as a principal input. Such a development has a particularly dynamic quality because it necessitates an expansion of industry A, which was originally set up in response to final demand and must now satisfy new industrial consumers as well. In other words, while the existence of industry A helps to induce the establishment of industry B, this establishment in turn induces the building of new capacities for A.

This kind of *pincer cum feedback* effect can only be obtained with the help of industries that, in the triangularized matrix of interindustry transactions, are located at some distance from the top rows<sup>20</sup>. These are the interme-

19 Mixing, converting, assembling, packing, etc.

20 In *Table I-8* they are under the “Intermediate Manufacture” label, and in *figures I-1* and *I-2* these industries are located in quadrant 1. How the combined linkages of these (and other) industries changed over time can be seen from *Figure I-3*.

diate or “basic” industries whose products are distributed as inputs of many other industrial sectors besides also going directly to final consumption. It is clear now that such industries should be given preference over the “last” industries (i.e., those with the lowest values of combined linkage), if they are at all economically feasible [23: 117–118].

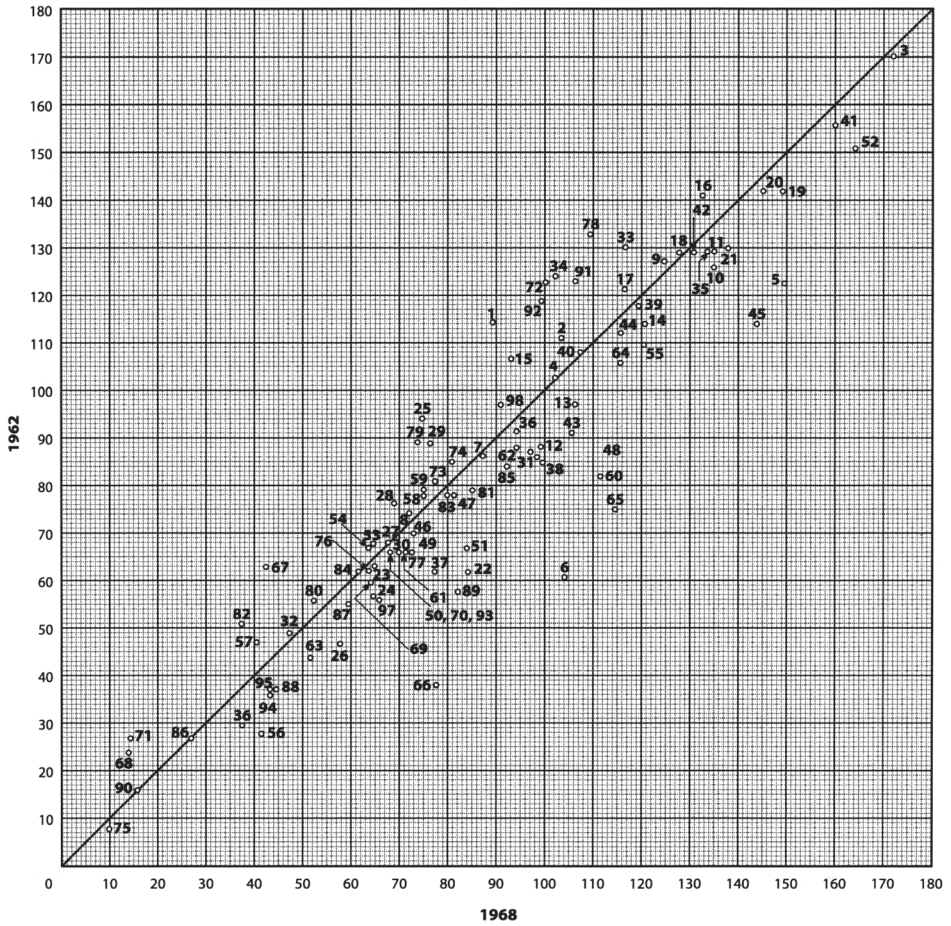
Is the criterion based on the interdependence phenomenon an appropriate guide for the allocation of investment funds? It certainly is. But only to the extent to which the *interdependence effect* is relevant for the allocation problem. Beyond any doubt, interdependence of investment decisions is of great importance, but it is only *one* of the aspects of the allocation problem among several others. And the other, so called side effects should also (as Leibenstein pointed out) be taken into account: (1) the indirect effect of investment allocation on the expansion of growth factors, that is, on the expansion of entrepreneurship, on the increase in the quality of the labor force and on the expansion of knowledge and skills; (2) the effect of investment allocation on future savings habits and therefore, on the future rate of investment; (3) the effect of investment allocation and policy on the future consumption pattern, which in turn determines whether consumption serves population maintenance or the expansion of growth agents; (4) the indirect effect of investment allocation on the rate of population growth which in turn, is a consideration in determining what happens to *per capita* output [32: 258–259]. One could also mention, as Professor Bruton did [5: 259], the possible side effects of investment on the ability of the economy to attract foreign capital, on the quality of the products (especially with respect to foreign markets), on the flexibility of plants (i.e., ability to adjust to changing demand, especially to increased future demand), on the environment (“quality of life”), etc. If one includes such things as effect on morale, on political stability, then virtually unlimited numbers of effects could be examined.

Of course, in the first place, we should not forget the *direct effects* of investment<sup>21</sup>.

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21 For more, see [5], pp. 288–295.

Figure I-4 Combined Linkages for 1962 and 1968



*Part Two*  
STRUCTURAL CHANGE



A  
A CAUSES OF VARIATIONS IN INPUT COEFFICIENTS

The input coefficients are in many cases (in this case too) expressed in value terms and are therefore bound to be sensitive to *changes in relative prices*. The coefficients would also change if the economy adopts a *new technology* or if a change occurs in the *scale of production*.

Almost everyone would agree that the accumulation and application of *technical knowledge* is of paramount importance in the development of any economy. However, the tempo of technological changes varies, depending on the level of development. Generally, it is regarded that the structure of a developing (growing) economy is bound to change very rapidly. It does not necessarily mean that there are more inventions and innovations in developing countries; most often the types of new industries installed in these countries are those using the most advanced technologies available in more developed economies. However, the question of suitability of such a policy is not of interest here.

Another factor which affects the input coefficients is *change in relative prices*. In considering the variations in relative prices the dominating problems are the problem of *input substitution* and *product-mix changes*. There are two theoretical extreme cases of variation in relative prices, with a practically continuous range of variations between them. At one extreme we have the case where output characteristics are unaffected by a change in input composition. This is a pure case of substitution, when the cheapest input combination will be chosen under varying input prices irrespective of conditions on the demand side. At the other extreme we have the case where the output characteristics are totally altered by a change in input composition. This is an extreme of the product mix case, when changes in input prices may be reflected in product prices which may affect demand, and *thus influence the choice between alternative input combinations*. Thus, the choice between alternative input combinations is determined by conditions of demand as well as by costs of production.

The frequency of changes in relative prices depends on a number of various factors. In general, the frequency is likely to be higher in “incomplete”, less developed economies than in articulated, mature, developed economies. Also the same tendency might be expected in small countries where foreign trade plays a very important role: the input coefficient will not only depend on the stability of relative prices of the domestically produced commodities but also on the stability of import prices. On the demand side (product-mix) foreign demand also enters into the picture.

It is difficult in an economy where movements in prices accompany changes in technology to separate the effect of each on the input coefficients. In economic *theory*, a clear line is drawn between “substitution” and “technological changes”, i.e., between choices within the context of a certain production function and changes in the production function itself. In actual *practice*, it is often very difficult to draw the line between changes in technological possibilities and shift among “known” alternatives. As a matter of fact these two factors are inseparable: it is impossible to conceive of technical advance without substitution. In a developed economy technological change may be simply regarded as a continuous effort to increase the amount of output per unit of input or to reduce the amount of inputs per unit of output. To achieve this, substitution plays a prominent role. It may be substitution of capital for labor, or capital for materials, or material for materials, etc., and such changes will be reflected in the input structure of the productive sectors<sup>22</sup>.

22 For the purpose of such an analysis the notion of technological change, which was initially formulated by Hicks for the case in which there are two factors of production, should be generalized into the case in which there are more than two factors of production as, e.g., it has been done by Uzawa and Watanabe in [56].  $X = \langle p(u_1 \dots u_n, x) \rangle$  specifies the maximum quantity of  $X$ , the output that can be produced, by using factors of production in quantities  $v_1, \dots, v_n$ , under the state of technology  $\tau$ , and it is assumed to satisfy all neo-classical schools' framework for the theory of production. Following the analogy of the consumers' theory, Uzawa and Watanabe defined the substitution term of  $S_i\tau$  of factor  $i$  with respect to  $t$  by

$$S_i\tau = \frac{1}{v_i} \frac{\delta v_i}{\delta \tau} + \varphi\tau \quad (i = 1, \dots, n).$$

Using this term  $S_i\tau$ , the technological change will be called

$i$  - saving

$i$  - neutral if  $S_i\tau \stackrel{\geq}{\leq} 0$

$i$  - dissaving

Furthermore, the relation of  $\sum r_i S_i\tau = 0$ , where  $r_i$  is the relative share of the  $i^{\text{th}}$  input to total cost, would be proved easily. Combining this relation with the definition of  $S_i\tau$ , the amount of technological change,  $\varphi\tau$ , will be characterized.



Increase in the scale of production may also bring about a change in the input coefficients. The general assumption in the input-output model is that there is a proportional relation between the inputs and the outputs of a sector. This, however, is not always true: particularly the occurrence of non-proportionality may be frequent in an underdeveloped country. Various arguments can support this view, e.g., industries may be established below their optimum size because of limitation of markets. The expansion of these industries at a later stage may bring about a change in the input coefficients. Similarly, the substitution of competitive imports by local products would entail the expansion of a certain number of domestic industries. Or, the other way around, increase in exports, international specialization, particularly in the special cases where world optimum plant scale is greater than the local industry output, may (if there is relatively free access to world markets) contribute substantially to the expansion of certain economic sectors. By increasing the level of output those sectors would realize potential economies of scale, which leads would lead to savings in certain factors of production. This fact indicates that scale of production cannot be examined in isolation: technical progress (accompanied by substitution) and economies of scale are complementary to each other. As a matter of fact, although analytically distinct, these three factors are exceptionally highly interrelated: realization of economies of scale depends upon increases in output which are in part induced by technical advances, while factor substitution is prompted by changes in relative factor prices which to some extent originate in technical change itself [48].

Variations in the input coefficients are not caused only by those three factors – a whole group of other factors consisting of external economies, improved health, education and skill of the labor force, better management, different stochastic influences, etc., are involved.

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Statistical measurements of  $S_i\tau$  and  $\varphi\tau$ , will need one more qualification, however, if the prices of factors of production are varied. Since the definition of the term  $S_i\tau$  was based on the *caeteris paribus* assumption about changes in prices, i.e., the notion of the partial derivative has to be redefined by the total derivative. Then after price changes,  $S_i\tau$  will be redefined as follows:

$$S_i\tau = \frac{1}{v_i} \frac{\Delta v_i}{\Delta\tau} - \frac{1}{v_i} \sum_j \frac{Sv_j}{Sw_j} \frac{\Delta w_j}{\Delta\tau} + \varphi\tau$$

where  $\Delta v_i = \sum_j \frac{\delta v_i}{\delta w_j} \Delta w_j$  and  $w$  is the price of the  $j^{\text{th}}$  factor.

The above generalization of a Hicksian classification of technological changes implies that (1) it is impossible for a technological change to be *i*-saving (or *i*-dissaving) for all factors *i*; and (2) it is rather misleading to identify a technological change in a quantitative term without knowing the price situation.

## B CHANGES IN INTERMEDIATE INPUTS

*I*t is very much in the current growth models' tradition to deal only in primary factors: labor and capital (and perhaps the classical third factor, natural resources, is introduced if and when there is information). The intersectoral transactions (intermediate inputs) are netted out. These remain enclosed in the economic *black box* that converts primary inputs into final output – value added to gross national product.

Fortunately, some most recent developments (see, e.g. [6]) illustrate that an explicit analysis of changing intermediate requirements adds more to insight than it does to confusion – particularly in the understanding of technological change. That is the reason why the “accounting approach” (which eliminates intermediate production in order to avoid double counting<sup>23</sup>) is not appropriate here, not only because of the fact that the area of intermediates mirrors most directly the effect of changing technology and organization of production, but because the analysis of intermediate inputs also contributes to the understanding of the conventional labor-capital-output relationship.

The increasing importance of intermediates can be also derived from the gradual and slight (but steady) increase of the direct intermediate inputs' share in total inputs (“index of depth”). The previous discussion on the so-called “index of depth” is only a first step in analyzing changes in the intermediate inputs. “Index of depth” only indicates the existence of the “black box”; linkage analysis studies represent one step further in investigation, while, as a matter of fact, they all together provide a framework and perspective for more detailed studies.

Changes from 1962 to 1968 in intermediate inputs for 29 sectors of the Yugoslav economy are shown in *Table II-1*. The first two columns are related to the changes in direct input coefficient. They measure the changing *direct* interdependence of the sectors. The structural changes in individual sectors, however, do not generally occur independently of one another. Most often, each change is part of a complex of inter-related shifts (linkages) in which the specialized roles of individual supplying sectors are realigned. In study-

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23 This is, of course, reasonable if one is primarily concerned with measuring an economy's “success” - the net amount the nation has managed to produce.

ing the process of mutual adjustment, *indirect* linkages among sectors must not be overlooked. A measure of *total* (direct-plus-indirect) interdependence is derived from a direct coefficient table by computing the Leontief inverse matrix, and shown in the third and fourth columns of *Table I-1*. It can be noticed at a glance that direct and inverse coefficients for a given sector generally move in the same direction over time<sup>24</sup>. The only two exceptions of this parallelism are ferrous metallurgy, where the total input coefficient increased in spite of the fact that the direct coefficient decreased, and handicrafts where the opposite case occurs.

*Table II-1* DIRECT AND TOTAL INTERMEDIATE INPUT COEFFICIENTS,  
1962 AND 1968

	Direct		Total	
	1962	1968	1962	1968
1. Production and Distribution of Electricity	.36333	.27139	1.87246	1.48929
2. Production and Processing of Coal	.41420	.35589	1.77699	1.60008
3. Production and Processing of Crude Petroleum	.44207	.57188	1.83736	2.23889
4. Ferrous Metallurgy	.81585	.80912	3.16169	3.26471
5. Non-Ferrous Metallurgy	.67921	.74108	2.64908	3.05656
6. Production and Processing of Non-Metallic Minerals	.43386	.46817	1.84254	1.94180
7. Manufacture of Metal Products	.58435	.59456	2.45326	2.49665
8. Shipbuilding	.42171	.64706	2.79581	2.63109
9. Manufacture of Electrical Machinery, Apparatus, Appliances and Supplies	.62560	.65921	2.51790	2.69881
10. Manufacture of Chemicals	.58363	.63516	2.2802	2.42760
11. Manufacture of Building Materials	.43799	.39489	1.8694	1.76428

<sup>24</sup> However it is not always so. Yan and Ames [1963] point out that pairs of sectors may be related by first-order, second-order, third-order, or higher order linkages, depending on whether one furnishes a direct input or an input-of-an-input or an-input of-an-input-of-an-input and so on, of another sector. As sectoral division of labor changes, some of the indirect linkages may be weakened, others strengthened; hence, in general, changes in inverse coefficients will not necessarily be proportional to changes in corresponding direct coefficients.

	Direct		Total	
	1962	1968	1962	1968
12. Timber Industry	.60835	.61678	2.07339	2.13090
13. Production and Processing of Paper	.59538	.73817	2.14069	2.53609
14. Manufacture of Textiles	.63949	.66691	2.40491	2.52759
15. Manufacture of Leather and Footwear	.70476	.69134	2.54723	2.51429
16. Manufacture of Rubber Products	.52076	.54271	2.12781	2.21910
17. Food Manufacturing Industries	.65318	.69549	2.26690	2.37228
18. Printing, Publishing and Allied Industries	.4273	.42837	1.85751	2.55182
19. Tobacco Manufacturing	.36609	.76656	1.66578	2.55182
20. Motion Picture Production	.45737	.42222	1.90272	1.79986
21. Miscellaneous Manufacturing Industries	.48638	.58022	2.02969	2.35511
22. Agriculture	.45383	.43754	1.86503	1.81380
23. Forestry	.12196	.14411	1.24029	1.25936
24. Construction	.54138	.53817	2.16090	2.12647
25. Transport and Communications	.40626	.35556	1.87047	1.70602
26. Trade and Catering	.13429	.09405	1.27301	1.18287
27. Handicrafts	.43656	.45541	1.90293	1.90183
28. Public Utilities	.30489	.25028	1.61973	1.49495
29. Scrap and Waste	-	-	1.00000	1.00000

Source: [66] and [69].

Measures of structural change based on inverse coefficients have some important advantages over direct coefficients comparisons. Inverse coefficients are insensitive to certain troublesome changes in the sectoral division of labor and in accounting practice. These measures, however, have their own shortcomings. In particular they tend to obscure the primary locus of change. That is one of the reasons why both types of information are presented here. Another reason lies in gaining insight into changes in indirect interdependence. If we single out indirect intermediate input coefficients (deducting direct from total coefficients) and follow their movement from 1962 to 1968, we will arrive at an interesting and important conclusion: over the mentioned period indirect interdependence (i.e., sectoral specialization)

increased in spite of the fact that direct interdependence declined. If we take the unweighted arithmetic mean of total coefficients (2.03253 in 1962 and 2.12600 in 1968) as an approximation for total interdependence of the economy as a whole<sup>25</sup> and deduct the weighted average of the direct coefficients (“index of depth”, which equaled .5079 in 1962 and .48717 in 1968), we will get the conditioned measure of indirect interdependence: 1.52534 in 1962 and 1.63883 in 1968. The latter figure is supposed to indicate that interdependence i.e., sectoral specialization did take place in the Yugoslav economy over the examined period. But because of the character of the unweighted average of total coefficients (which does not make much economic sense and therefore is a rather shaky indicator of “total” interdependence) we have to resort to another, more convincing method to prove the above conclusion. In order to measure our finding we will conduct some sort of “mental experiment” which is not too uncommon in various kinds of extensions of Leontief’s model. Namely, we fix the gross national product at a given (1968) level and industrial composition, and then we examine the necessary level of intermediate output to produce the same final demand with the input-output structure of a different (1962) year. By comparing the intermediate outputs required to do the same job, we can separate the effects of changes in the structure of industry from changes in the final demand made on the system. The intermediate outputs for 1962 are computed on the basis of a simple formula:

$$W_{1962} = (I - A)_{1962}^{-1} - Y_{1968}$$

( $W_{1962}$  = vector of intermediate output level in 1962,  $(I - A)_{1962}^{-1}$  = inverse matrix for 1962,  $Y_{1968}$  = the 1968 final demand vector), while the 1968 intermediate outputs consistent with this bill of final demand are simply the difference between actual total output and final demand for that year. For all sectors the gross volume of intermediate *outputs* is identical to the gross volume of intermediate *inputs*. The total volume of inputs which are required to produce 1968 deliveries to final demand with 1962 and 1968 input structures is presented as column sums in *Table II-2*: as we can notice, the total volume of inputs required to produce the same final product tends to be a little bigger with newer (1968) than with older (1962) tech-

25 Which is rather questionable, but at this point the only possible procedure.

niques of production. At first glance, this may appear paradoxical. If technological change is to be considered technological progress, how can more inputs have been required to produce the same deliveries to final demand at a later date? Actually, an increased volume of intermediate inputs means an increase in *specialization*. It represents a change in the division of labor among (micro)economic actors (firms), but it does not in itself imply technological deterioration. The later technology uses slightly more intermediate inputs but less primary inputs, labor and capital: 4.49 men-years were needed to produce a value of output of 1 million dinars in 1962 and only 3.39 men-years were necessary for 1 million dinars in value of production in 1968 (constant 1966 prices are used); 1.9 units of capital stocks were necessary to produce 1 unit of output in 1962, while by 1968 this declined to 0.8 units (in current prices). It is well known that as an economy develops, it becomes advantageous for individual firms to become more specialized, that is to cover a shorter vertical sequence or a narrower horizontal assortment of activities. Each firm may fabricate a particular kind of component in volume instead of a more varied assortment of parts, or it may perform a specialized service function. If, as Adam Smith suggests, division of labor depends on market size, then this tendency is to be expected as the total volume of production expands.

Table II-2 INTERMEDIATE OUTPUT REQUIREMENTS FOR DELIVERING  
TOTAL 1968 FINAL DEMAND WITH 1962 AND 1968 TECHNOLOGY  
(in dinars)

	1962	1968
1. Electricity	2084241	2252157
2. Coal	2438329	2319014
3. Crude Petroleum	2521337	3014513
4. Ferrous Metals	8163861	8321166
5. Non-Ferrous Metals	4927684	6027104
6. Non-Metallic Minerals	1462845	1689622
7. Building Materials	3234732	3431935
8. Metal Products	9972331	9676257
9. Shipbuilding	163589	194544
10. Electric Machinery, Apparatus, Appliances and Supplies	3132485	3254289
11. Chemicals	7553107	7342619

	1962	1968
12. Paper	2794526	2854938
13. Timber	3104888	3261310
14. Textiles	6068687	6269197
15. Leather and Footwear	1097075	1038316
16. Rubber Products	889569	932472
17. Food Manufacturing	2257496	2319960
18. Tobacco	523094	607394
19. Printing, Publishing and Allied Industries	349776	367540
20. Motion Picture Production	74441	67915
21. Miscellaneous Manufacturing Industries	38365	46821
22. Agriculture	19838461	19326643
23. Forestry	2101043	2130418
24. Construction	5452872	5409845
25. Transport and Communications	5461468	5393305
26. Trade and Catering	8114471	8203701
27. Handicrafts	2131962	2216283
28. Public Utilities	512095	475522
29. Scrap and Waste	610957	623166
Total	107076657	109068116

Source: [14] and [17].

## B 1 General Inputs

Some sectors produce the kinds of inputs – energy, transportation, trade, communications and other services – required by virtually all firms in the economy and used in the production of a very broad range of goods and services. Because of the presence of these highly developed linkages it is expected that general inputs requirements tend to increase over time for all types of end products. Also, the large consumers of general inputs are the general sectors themselves – the service sector buys many services, and the transportation sector much transportation and energy.

While changes in non-general (specialized) inputs depend primarily on the particular technology and circumstances of the consuming industry, general inputs are more directly tied to broad aspects of the economy at large – its

size, geography, industrial location patterns, and institutional environment. Thus general inputs can be expected to vary more from county to country than specialized ones.

In order to analyze changes in general inputs in the individual sectors of the Yugoslav economy (along the rows of selected general inputs) we will use A. Carter's [6] two way scatter-diagrams (such as *Figure II-1*). They show, at a glance, which are the large and which are the small coefficients in a given row and how they change over time. Numbers next to each point identify consuming sectors (lists of the 29, 50 and 98 aggregation level sectors can be found on pp. 73, 77 and 83, respectively). Each axis measures direct input coefficient values for a particular year, and the 45-degree line guides the reader in judging whether the coefficients were larger in one year than in another; so, the coefficients that were larger in 1968 than in 1962 appear below the 45-degree line. Clustering on one side of the line means that many coefficients tended to move (increase or decrease) in the same direction. Logarithmic scales are used, and the distance from the 45-degree line measures relative rates of coefficient change.

### B 1 a Energy Sectors

The principal energy supplying sectors are coal mining, petroleum refining and electric and gas utilities. As can be seen from the *figures II-1, II-2 and II-3*, over the examined period Yugoslav industry consumed a rapidly growing proportion of its energy requirements in the form of electricity rather than through direct fuel consumption, (and also consumed more hydro than thermal electric power, see [75], p. 160). Coal declined in relative importance in spite of the fact that Yugoslav coals are generally suitable for power generation (more suitable than for other industrial processing use). Increased reliance on electric power was encouraged by improvements in the efficiency of fuel use in electric power generation, combined with progress in economical transmission of power over long distance. The tendencies in petroleum are not so clear-cut. It appears that in those sectors where the use of petroleum was small the importance of petroleum was further reduced, while in those sectors where petroleum input coefficients were larger, they increased at a greater and greater rate.



### B 1 b Transportation

Only transportation is selected here out of all productive services; “non-productive” services such as insurance, health, scientific, educational and cultural services are not included in Yugoslav input-output tables; see: Glossary, p. 107). As *Table II-4* shows, the share of transportation requirements per unit of output declined in 20 out of 29 sectors (this decline would probably be more pronounced if communications were excluded). One of the reasons for that is the greater spatial (interregional) integration of the Yugoslav economy: some parts of the transportation network were completed<sup>26</sup> (shortening the distances increased the “density” of the economy), and some of the previous transportation bottlenecks were eased. Specific developments in certain industry groups have contributed to further economies in transportation. The share of bulky commodities declined; smaller, lighter equipment was cheaper to ship; fuel economies meant savings in transportation costs, particularly for fuel-intensive sectors (substitution of coal by electricity, see B 1 a) The growing relative importance of services as compared to tangible goods inputs also decreased transportation requirement. The most striking changes were seen in transportation intensive sectors.

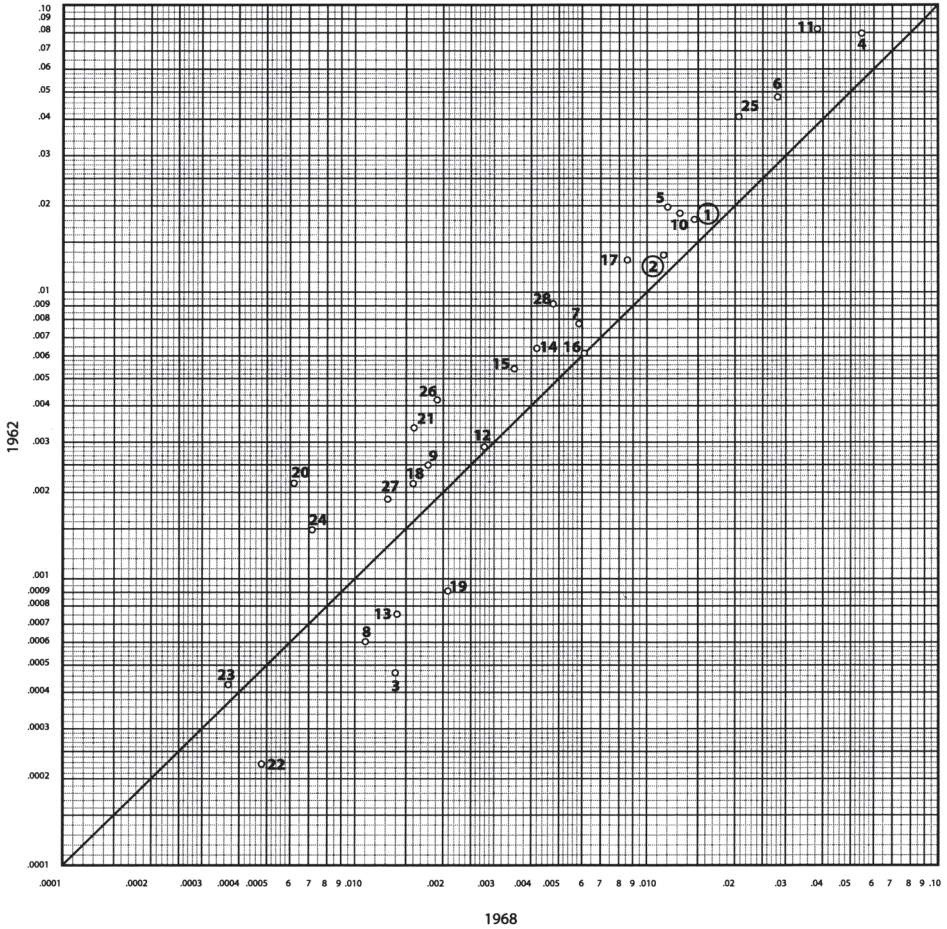
### B 1 c Chemicals

Chemicals are sometimes specialized, and sometimes general inputs. For example, drugs, soaps, and cosmetics, paint and basic materials are sold directly to most industries. They perform general functions either as aids in cleaning and maintenance or as auxiliary inputs. The importance of this type of function is, as it is well known, increasing. On the other hand, the synthetic materials sector is clearly a material producer and belongs to the specialized inputs group. The combined chemicals as they are presented in *Figure II-5* are mildly growing in importance in many sectors, particularly in those where their use is intensive.

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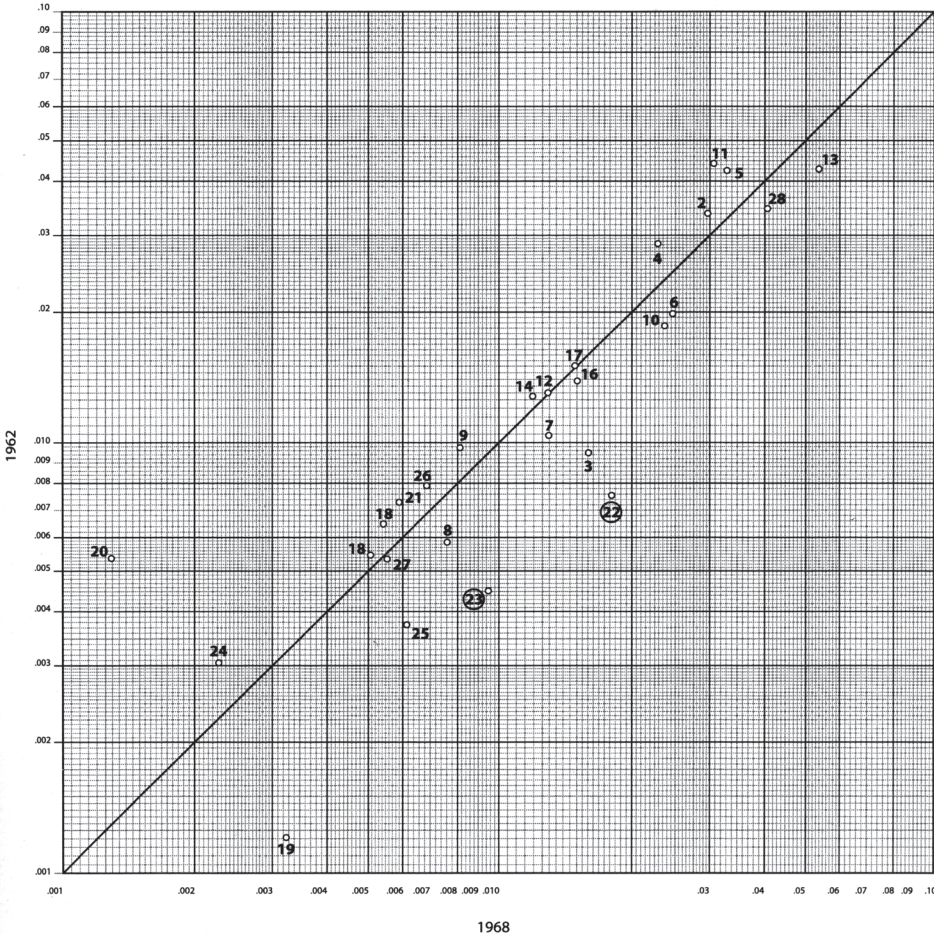
26 This does not mean that transportation facilities were no longer one of the serious bottlenecks of the Yugoslav economy.

Figure II-1 Direct Coal Coefficients for 1962 and 1968



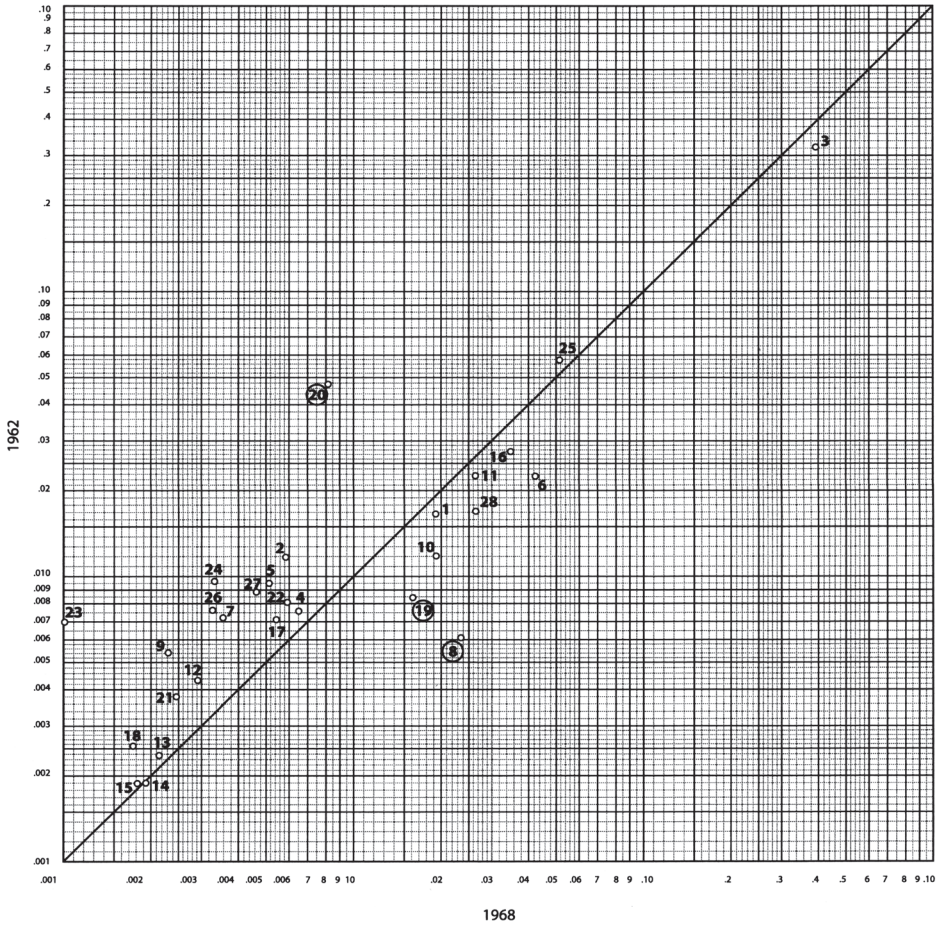
Note: Each point indicates the value of the coefficient for a single 29-order consuming sector in each of two years. For circled points, multiply scales by 10. Sector 29=0 for both years. For further explanations see p. 61.

Figure II-2 Direct Electricity Coefficients for 1962 and 1968



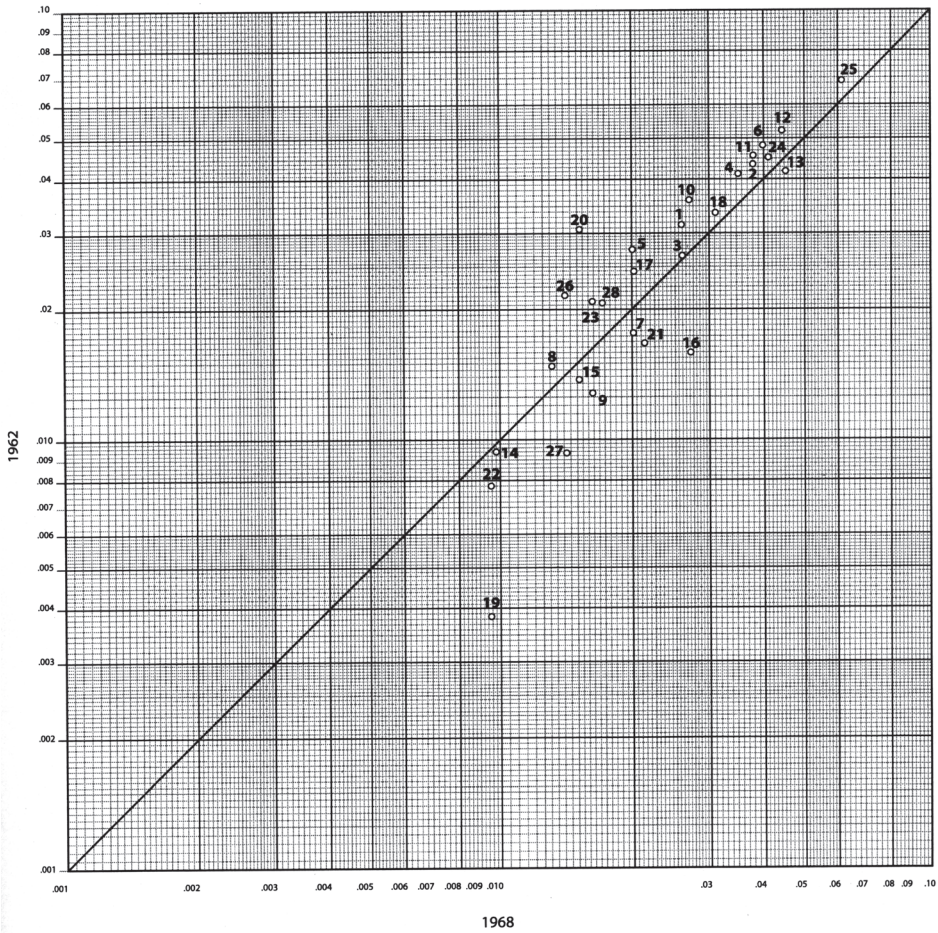
Note: Each point indicates the value of the coefficient for a single 29-order consuming sector in each of two years. For circled points, divide scales by 10. Sectors 1, 29 = 0 for both years. For further explanations see p. 61.

Figure II-3 Direct Crude Petroleum Coefficients for 1962 and 1968



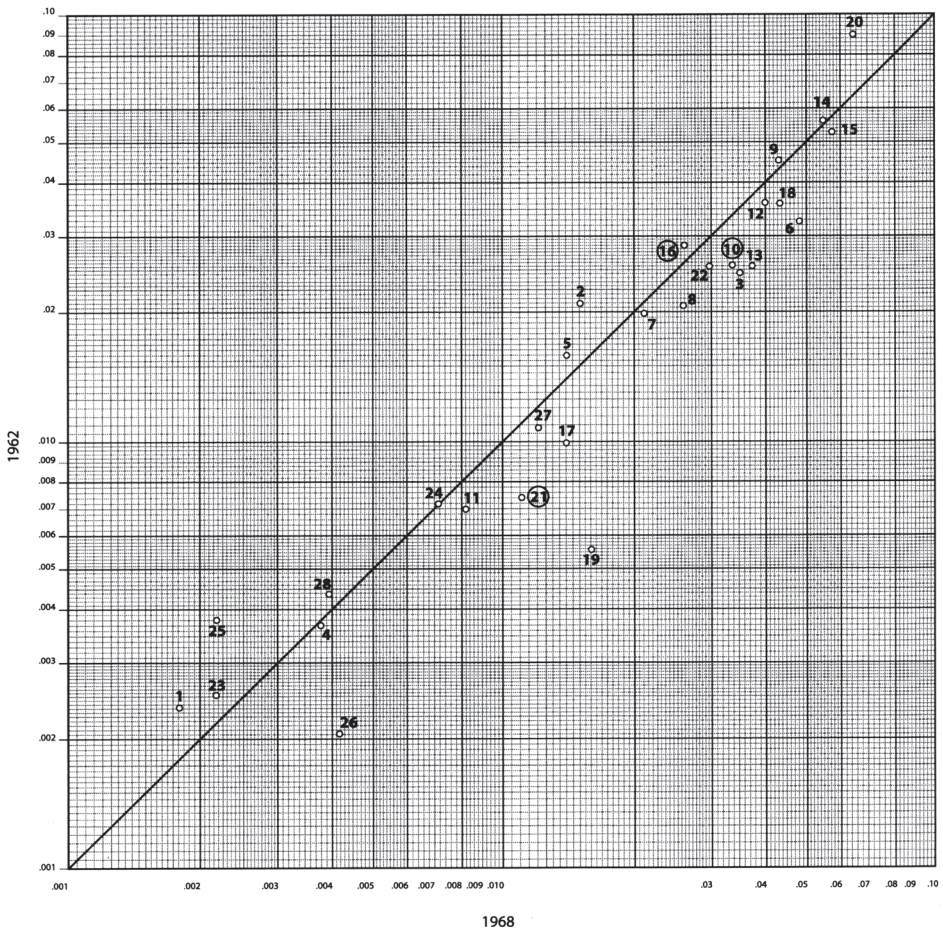
Note: Each point indicates the value of the coefficient for a single 29-order consuming sector in each of two years. For circled points, divide scales by 10. Sector 29=0 for both years. For further explanations, see p. 61.

Figure II-4 Direct Transportation and Communication Coefficients for 1962 and 1968



Note: Each point indicates the value of the coefficient for a single 29-order consuming sector in each of two years. Sector 29 = 0 in both years. For further explanations, see p. 61.

Figure II-5 Direct Chemicals Coefficients for 1962 and 1968



Note: Each point indicates the value of the coefficient for a single 29-order consuming sector in each of two years. For circled points, multiply scales by 10. Sector 29=0 in both years. For further explanations, see p. 61.

Explanations for *Figures II-1 through II-5*:

1. Electricity
2. Coal
3. Crude Petroleum
4. Ferrous Metallurgy
5. Non-Ferrous Metallurgy
6. Non-Metallic Minerals
7. Metal Products
8. Shipbuilding
9. Electrical Machinery, Apparatus, Appliances & Supplies
10. Chemicals
11. Building Materials
12. Timber Industry
13. Paper
14. Textiles
15. Leather and Footwear
16. Rubber Products
17. Processed Foods
18. Printing, Publishing and Allied Industries
19. Tobacco
20. Motion Picture Production
21. Miscellaneous Manufacturing Industries
22. Agriculture
23. Forestry
24. Construction
25. Transport and Communication
26. Trade and Catering
27. Handicrafts
28. Public Utilities
29. Scrap and Waste

It is believed that the rise in general sectors parallels the growing specialization within the economy; for these reasons the rise of these sectors may be an essential feature of economic development.

## B 2

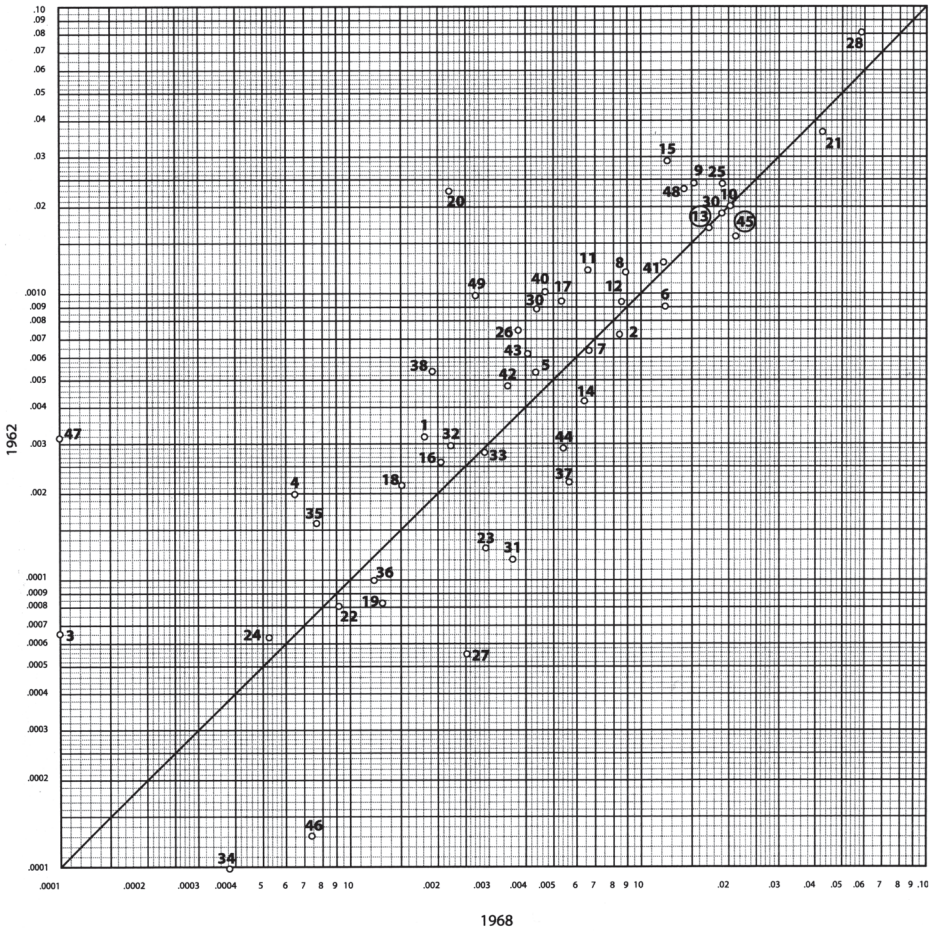
## “Competition” Among Basic Materials

Metals, plastics, rubber, wood, and stone and clay products are usually called basic materials. They are major intermediate inputs into construction and the manufacture of durable goods. For a long time, it has been possible to substitute one material for another in particular use. It is difficult to say to what extent the choice of materials is dictated by technological necessity (qualitative improvements) and to what extent by price consideration. When talking about a technological basis for substitution and about long-run price trends (rather than short-term fluctuations) we are actually talking in terms of long-run substitutability. Therefore, the presented 7-year-period data on the basic materials changes in the Yugoslav economy can be treated only as a hint of real long-run tendencies.

Two-way scattered diagrams of 1962 and 1968 materials coefficients (*Figures II-6 through II-10*) give some details on changes in direct consumption of individual materials in particular uses. The main feature of these diagrams is that the points do not tend to be clustered on either side of the 45-degree line for most of the materials. Somewhat greater regularity can be noticed only in the case of *wood* – wood purchases per unit of output decreased in the majority of industries between 1962 and 1968; and it is expected that this tendency will continue. The reverse trend is expected for *aluminum*. However, the situation in the observed period is not clear-cut – as diagram *11-7* shows the picture is very mixed. The extremely large Yugoslav bauxite reserves and the huge investments in modern alumina and aluminum plants made the competitive prospects for aluminum more optimistic.

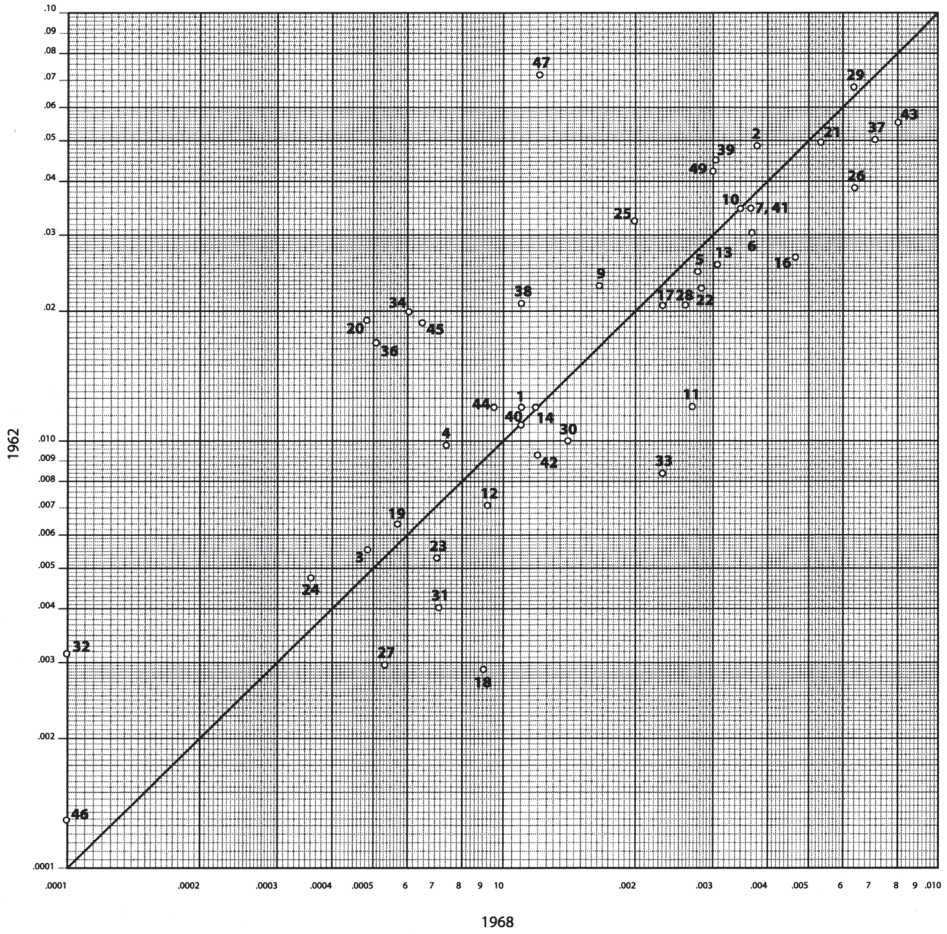


Figure II-6 Direct Wood Coefficients for 1962 and 1968



Note: Each point indicates the value of the coefficient for a single 50-order consuming sector in each of two years. For circled points, divide scales by 10. Sector 50=0 for both years. For further explanations, see p. 65.

Figure II-7 Direct Rubber Coefficients for 1962 and 1968



Note: Each point indicates the value of the coefficient for a single 50-order consuming sector in each of two years. For circled points, multiply scales by 10. Sector 50=0 in both years. For further explanations, see p. 65.

Explanations for *Figures II-6 and II-7*:

1. Electricity
2. Coal
3. Crude Petroleum
4. Ferrous Metallurgy
5. Non-Ferrous Metallurgy
6. Non-Metallic Minerals
7. Building Materials
8. Metal Products
9. Shipbuilding
10. Electrical Machinery, Apparatus, Appliances & Supplies
11. Chemicals
12. Paper
13. Timber Industry
14. Textiles
15. Leather and Footwear
16. Rubber Products
17. Processed Foods
18. Tobacco
19. Printing, Publishing and Allied Industries
20. Motion Picture Production
21. Miscellaneous Manufacturing Industries
22. Crop Farming
23. Fruit Growing and Viticulture
24. Livestock Breeding
25. Fishing
26. Forestry
27. Construction Design and Surveying
28. House Building
29. Civil and Hydraulic Engineering
30. Finishing & Handicrafts Works in Construction Industry
31. Railway Transport
32. Sea-Borne Shipping
33. River and Lake Transport
34. Air Transport
35. Road Transport
36. Communications

37. Transshipment and Other Services
38. Retail Trade
39. Wholesale Trade
40. External Trade
41. Storage and Trade Services
42. Catering and Tourism
43. Metal Processing Services & Repairs
44. Electrotechnical Services & Repairs
45. Wood Processing Services & Repairs
46. Tailoring Services
47. Shoemaking Services
48. Other Handicraft Services
49. Public Utilities
50. Scrap and Waste

Between 1962 and 1968 *plastics* gained in many key sectors – for instance, automobiles, but lost in others. As far as future development was concerned the growing importance of plastics seemed to be a matter of common agreement. Plastics were cheap relative to most other materials, and their price advantage appeared to be increasing with expanded usage.

During the 1962–1968 interval, about as many *rubber* coefficients rose as fell (*Figure II-7*). On the basis of the changes in plastics coefficients we can easily assume that rubber was subject to increasing competition from plastics, particularly in electronic insulation.

While *iron and steel* coefficients decreased for some sectors and increased for others (*Figure II-10*), the tendency towards a decline predominates as a result of a growing shortage of quality domestic iron and steel, due to a deterioration of the ores' quality and the related rise in iron and steel prices. Also it is very likely that aluminum was being substituted for iron and steel in some industries<sup>27</sup>.

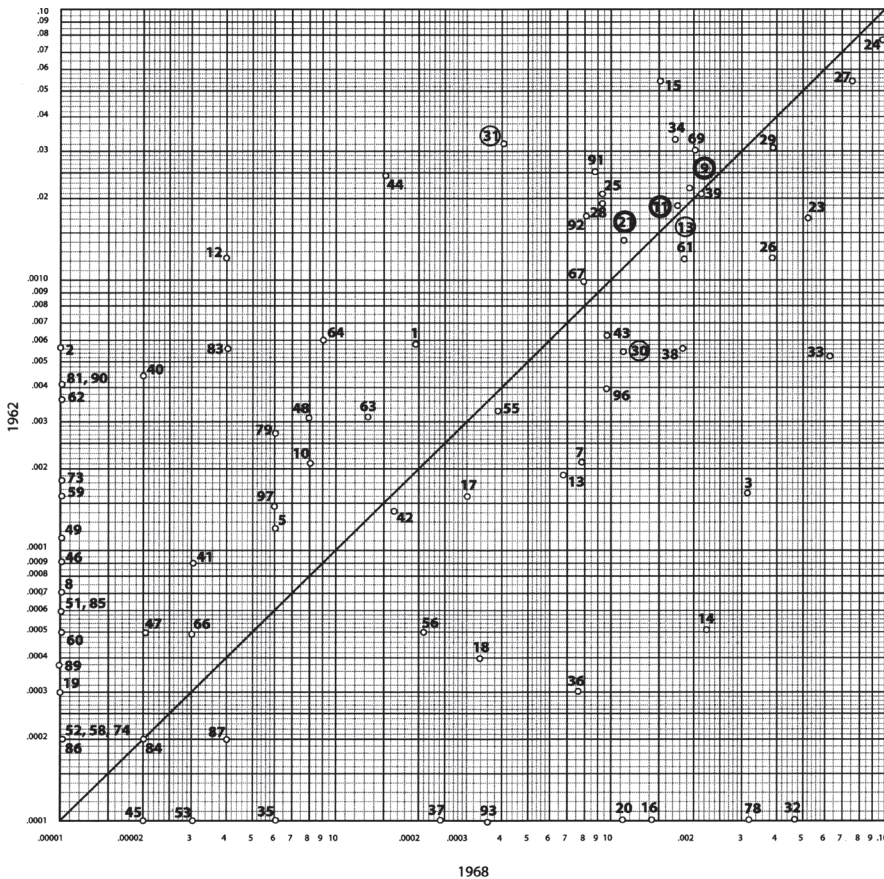
In general, the traditional dominance of a single major material in each end-use category was breaking down. Steel still constituted the principal material for many durables, but its share had been declining, while that of formerly minor materials had grown. As technological knowledge accumulates, more

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27 Unfortunately, the level of aggregation (even 98-order classification) in 1962 and 1968 input-output tables does not permit study of some otherwise rather important materials; in particularly, stone and clay products are lumped with non-metallic minerals, and copper is lumped with "other non-ferrous metals".

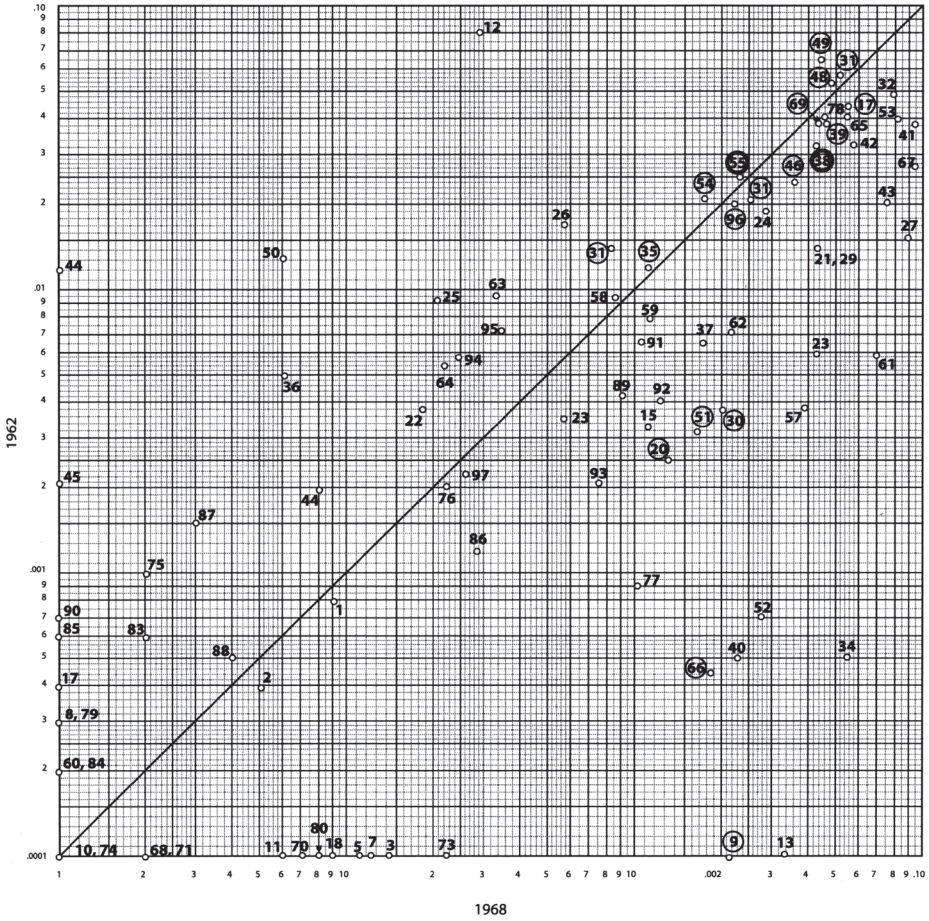
and more alternatives open up and potential substitutability often increases. However, such diversification is not a necessary feature of technical progress. In the said situation, properties and techniques of utilization for all materials were improving at the same time. Therefore, competition continued to depend heavily on the prices at which the materials could be supplied. The prices, in turn, rested on techniques of producing the basic materials in question. Competition between materials for the durable goods markets was, thus, tied to changing technical and resource conditions in earlier stages of production.

Figure II-8 Direct Aluminium Coefficients for 1962 and 1968



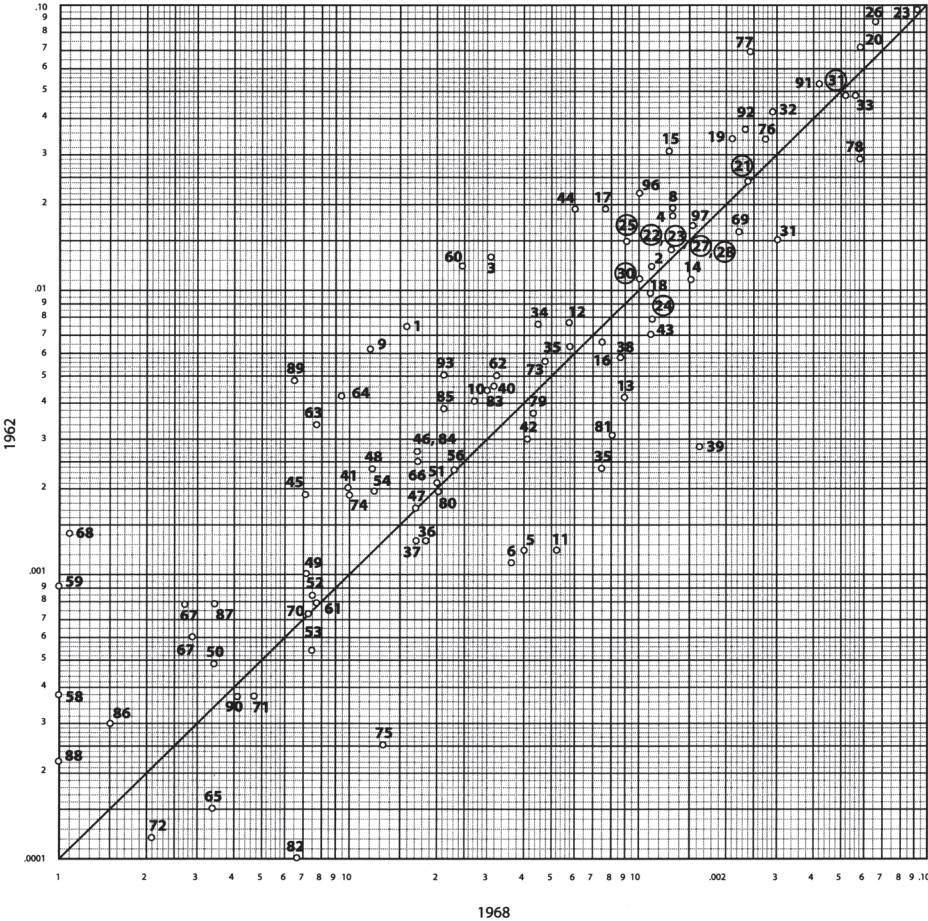
Note: Each point indicates the value of the coefficient for a single 98-order consuming sector in each of two years. For circled points, multiply scales by 10; for double circled points, multiply scales by 100. Sectors 4, 6, 50, 54, 57, 65, 68, 70, 71, 72, 75, 76, 77, 80, 82, 88, 94, 95, 98=0 in both years. For further explanations, see p. 70.

Figure II-9 Direct Plastics Coefficients for 1962 and 1968



Note: Each point indicates the value of the coefficient for a single 98-order consuming sector in each of two years. For circled points, multiply scales by 10; for double circled points, multiply scales by 100. Sectors 4, 16, 19, 56, 72, 81, 82, 98=0 in both years. For further explanations, see p. 70-72.

Figure II-10 Direct Iron and Steel Coefficients for 1962 and 1968



Note: Each point indicates the value of the coefficient for a single 98-order consuming sector in each of two years. For circled points, multiply scales by 10. Sectors 94, 95, 98 do not consume iron and steel. For further explanations, see p. 70-72.

Explanations for *Figures II-8 through II-10*:

1. Electricity
2. Coal
3. Coke and Gas
4. Crude Petroleum and Natural Gas
5. Crude Petroleum Products
6. Iron Ore
7. Ferrous Metallurgy
8. Non-Ferrous Metallic Ores
9. Alumina and Aluminum
10. Other Non-Ferrous Metals
11. Rolling Mills of Non-Ferrous Metals
12. Non-Metallic Minerals
13. Glass
14. Refractory Materials
15. Porcelain and Ceramics
16. Other Processing of Non-Metals
17. Stone, Sand and Lime
18. Bricks and Tiles
19. Cement
20. Other Building Materials
21. Metal Semi-Products
22. Agricultural Machines
23. Other Machines and Equipment
24. Fine Apparatus and Instruments
25. Rail Vehicles
26. Road Vehicles
27. Metal Products, n.e.s.
28. Shipbuilding
29. Electrical Machinery and Apparatus
30. Electrical Apparatus for Household Use
31. Cables and Conductors
32. Radio and Telecommunication Equipment
33. Other Electrical Products
34. Non-Organic and Organic Chemicals
35. Plastic Materials and Fibers



36. Pharmaceutical Products
37. Soap and Cosmetics
38. Plastics Articles
39. Other Chemicals
40. Paper and Cellulose
41. Paper Products
42. Timber and Boards
43. Final Wood Products
44. Chemical Wood Products
45. Hemp and Flax Fiber
46. Cotton Yarn and Fabrics
47. Woolen Yarn and Fabrics
48. Other Yarn and Fabrics
49. Knitted Goods
50. Clothing
51. Other Textile Products
52. Leather and Fur
53. Leather Footwear
54. Leather Fancy Goods
55. Rubber
56. Milling of Cereals
57. Bread and Pastes
58. Livestock Slaughter and Meat Processing
59. Fruit and Vegetable Processing
60. Sugar
61. Sweets and Cocoa Products
62. Vegetable Oils and Fats
63. Alcohol and Beverages
64. Other Foodstuffs
65. Fermented Tobacco
66. Tobacco Manufactures
67. Printing, Publishing and Allied Industries
68. Motion Picture Production
69. Miscellaneous Industries
70. Crop Farming
71. Fruit Growing and Viticulture
72. Livestock Breeding

73. Fishing
74. Forestry
75. Construction Design
76. House Building
77. Civil and Hydraulic Engineering
78. Handicrafts in Construction Industry
79. Railway Transport
80. Sea-Borne Shipping
81. River and Lake Transport
82. Air Transport
83. Road Transport
84. Communications
85. Transshipment and Other Services
86. Retail Trade
87. Wholesale Trade
88. External Trade
89. Storage and Trade Services
90. Catering and Tourism
91. Metal Processing Services and Repairs
92. Electrotechnical Services and Repairs
93. Wood Processing Services and Repairs
94. Tailoring Services
95. Shoemaking Services
96. Other Handicraft Services
97. Public Utilities
98. Scrap and Waste

## C DESTINATIONS OF OUTPUT

As it has been indicated the input-output table allows us to determine what part of the output of any sector goes to investment, exports and domestic consumption (*final uses*), and what part undergoes further processing (*intermediate use*). Table II-3 lists the 29 sectors of the Yugoslav economy according to destination of their outputs (by use) and indicates the changes in that destination over the 1962-1968 period. In the field of *intermediates* (in both years) the list is headed by such branches as building materials, ferrous metallurgy, paper, coal, nearly the whole output of which undergoes further processing in other sectors. On the other hand, 75% of the construction output goes to investment; metal products and shipbuilding are in second and third place, producing for investment 38% and 32% of their output, respectively. The main producers for *consumption* are food manufacturing industries, agriculture, motion picture production, transport and communication, etc. In general, the share of *exports* in final demand slightly decreased; so did the share of general *consumption* and *inventories*, while share of gross investment and personal consumption increased.

The Table II-3 illustrates only *direct dependence* of the sectors on the different components of demand. However, it is well known that one of the marked advantages of an input-output table is that it provides an overall picture of interdependence – the intermediate products sectors, supply sectors which produce final products and other intermediates, so that it is possible to trace the flows throughout the productive system and to determine the ultimate destination of the intermediates produced by any given sector. The outcome of such an exercise (shown in the Table II-4) is an exhaustive allocation of the output of the sector in question to each of the final uses. It is done by means of inverse table coefficients using the data on the final bills of goods taken from the input-output table, and calculating the direct and indirect input required from each sector for the supply of a given level of exports, investment and consumption. However, this is not only a way to assess the full *contribution* of each sector to exports or to the expansion of productive capacity; it is also a way to express the *dependence* of each sector on the various elements of final demand (in the table this dependence is expressed in percentage terms). The importance of this characteristic of dependence of

Table II-3 DESTINATION OF OUTPUT BY USE, 1962 AND 1968

	Intermediates		Final Uses							
	Increase In Inventories		Gross investment		Personal Consumption		General Consumption		Exports	
	1962	1968	1962	1968	1962	1968	1962	1968	1962	1968
1. Electricity	77.72	60.22	-	-	14.14	29.22	6.67	10.19	1.21	.11
2. Coal	86.45	81.45	.41	.14	8.82	12.60	3.83	4.17	.49	3.64
3. Crude Petroleum	76.45	82.40	1.85	.99	6.68	8.81	6.97	3.82	8.05	3.98
4. Ferrous Metallurgy	90.60	95.24	2.28	.21	-	-	.25	.41	6.87	4.14
5. Non-Ferrous Metallurgy	79.30	77.00	.69	1.24	-	-	.74	.39	19.27	21.36
6. Non-Metallic Minerals	68.48	67.68	5.33	4.92	11089	12.31	.58	.49	13.72	14.60
7. Metal Products	36.45	37.45	4.35	1.56	38.43	37.73	4.79	3.29	9.92	7.75
8. Shipbuilding	9.45	7.51	-	-	32.37	31.38	.03	.57	56.92	60.19
9. Electrical Machinery, Apparatus, Appliances and Supplies	42.95	37.92	4.22	1.82	17.70	23.18	22.44	1.88	1.06	13.58
10. Chemicals	66.31	65.44	3.36	5.57	-	-	13.96	9.71	5.37	9.76
11. Building Materials	92.94	94.54	1.01	2.58	-	-	-	-	6.05	2.89
12. Timber Industry	51.26	50.81	5.12	2.03	.81	3.08	20.89	.95	.82	22.37
13. Paper	88.52	83.34	.74	1.02	-	-	.93	.73	2.77	12.14
14. Textiles	40.17	42.42	8.81	6.15	.05	-	41.83	1.38	1.53	11.63

15. Leather and Footwear	31.81	31.35	9.73	3.90	-	-	41.26	37.02	.65	.48	16.55	27.25
16. Rubber Products	58.49	65.38	3.81	7.48	-	-	31.78	20.19	4.32	3.18	1.60	3.90
17. Processed Foods	71.41	16.09	2.04	1.61	-	-	68.55	72.83	1.92	2.38	13.08	6.37
18. Printing, Publishing & Allied Industries	28.24	22.76	6.64	4.86	-	-	41.34	53.98	26.82	17.16	.36	1.24
19. Tobacco	15.88	23.91	.41	13.89	-	-	59.08	41.60	-	-	24.63	20.60
20. Motion Picture Production	21.25	27.11	7.38	2.91	-	-	40.92	-	5.10	63.92	25.35	6.06
21. Miscellaneous Manufacturing Industries	11.83	6.02	6.74	2.67	-	.23	50.59	68.51	17.88	12.48	12.96	10.10
22. Agriculture	47.66	46.68	.43	3.06	-	-	45.86	42.50	1.50	1.84	4.55	5.92
23. Forestry	74.08	71.30	-	-	.57	.24	17.04	18.20	.94	1.41	7.37	6.73
24. Construction	21.52	18.33	-	1.01	75.70	74.94	-	-	2.74	2.76	.04	.95
25. Transport and Communication	41.69	41.03	.70	.85	1.36	.89	30.33	28.71	3.85	3.28	22.07	25.24
26. Trade and Catering	23.73	29.16	1.11	.56	7.16	5.31	55.68	55.74	2.96	1.56	9.36	7.67
27. Handicrafts	51.06	43.45	.90	.54	1.98	3.51	37.83	45.93	8.23	5.94	-	.56
28. Public Utilities	26.24	40.97	-	-	-	-	24.37	26.80	49.39	32.23	-	-
29. Scrap and Waste	96.52	89.95	.72	2.72	-	-	-	-	-	-	2.76	7.33
Total	45.40	43.33	2.30	2.15	13.66	14.83	26.07	27.87	3.26	2.57	9.31	9.07

Sources: [66] and [69]

Table II-4 DEPENDENCE OF THE SECTORS ON THE INDIVIDUAL COMPONENTS OF FINAL DEMAND, 1962 AND 1968

	Investment		Personal Consumption		General Consumption		Exports	
	1962	1968	1962	1968	1962	1968	1962	1968
1. Electricity	8.66	2.27	48.71	61.02	19.86	24.77	17.03	14.20
2. Coal	12.59	.00	43.64	57.53	15.802	22.08	22.26	19.60
3. Crude Petroleum	4.18	10.61	38.90	71.34	20.50	5.24	29.73	11.10
4. Ferrous Metallurgy	28.93	47.91	20.62	18.03	7.88	4.48	35.98	18.04
5. Non-Ferrous Metallurgy	16.37	8.36	22.17	21.74	8.05	3.72	48.40	60.65
6. Non-Metallic Minerals	8.24	28.82	38.13	44.93	7.50	4.25	34.83	16.24
7. Metal Products	35.93	54.48	23.04	24.03	8.7	5.19	27.15	13.85
8. Shipbuilding	35.14	32.30	1.19	11.18	1.49	1.86	62.07	43.88
9. Electrical Machinery, Apparatus, Appliances & Supplies	30.33	37.57	33.54	38.70	5.34	2.26	24.49	18.64
10. Chemicals	5.77	18.98	49.63	42.29	15.26	11.56	20.70	23.70
11. Building Materials	33.97	55.94	16.57	19.81	13.43	4.68	30.40	14.77
12. Timber Industry	11.13	10.47	38.30	53.77	5.24	3.21	36.76	27.51
13. Paper	3.90	8.82	45.31	37.46	21.23	18.92	22.30	18.49
14. Textiles	1.77	9.92	65.88	72.33	5.15	5.37	14.49	13.10
15. Leather and Foot-ware	.26	2.98	60.35	80.48	1.81	3.24	23.72	9.46
16. Rubber Products	3.40	11.75	69.16	56.22	10.17	3.69	8.55	19.59
17. Processed Foods	.25	5.50	78.72	64.95	2.78	18.21	15.21	5.84
18. Printing, Publishing and Allied Industries	1.10	1.96	54.41	59.78	33.43	27.45	2.42	7.84
19. Tobacco	.00	14.53	70.23	68.95	.00	6.27	29.28	13.30
20. Motion Picture Production	.00	.90	51.96	71.04	6.47	3.56	32.19	11.12

	Investment		Personal Consumption		General Consumption		Exports	
	1962	1968	1962	1968	1962	1968	1962	1968
21. Miscellaneous Manufacturing Industries	.12	4.99	57.31	77.96	20.18	21.26	14.77	12.85
22. Agriculture	.55	.88	75.47	70.84	3.60	3.66	15.65	20.64
23. Forestry	7.42	6.37	50.75	50.52	7.52	6.12	29.79	34.81
24. Construction	80.03	82.28	.82	.75	5.42	2.57	5.36	11.20
25. Transport & Communications	10.34	8.58	45.60	75.54	9.45	9.87	30.50	4.94
26. Trade and Catering	7.36	2.08	62.62	57.64	6.78	29.17	15.95	9.03
27. Handicrafts	5.26	2.69	65.29	45.31	15.27	20.31	8.41	23.44
28. Public Utilities	.71	.77	33.75	36.50	63.96	58.12	37.80	11.76

Source: [66] and [69]

demand becomes apparent as soon as we discuss the application of input-output analysis to the forecasting of output, or for providing a general explanation of the factors affecting the development of one sector or another. Direct *dependence* (Table II-3) by itself gives an incomplete and sometimes distorted picture of a sector's dependence on the components of final demand. From this fact the importance of Table 11-4 is derived.

From this table we can see that the sectors particularly dependent on exports are non-ferrous metallurgy, shipbuilding, certain metal products, forestry, etc. Many industries whose products do not enter the investment process directly are shown to be dependent to a significant degree on the level of investment: ferrous metallurgy, non-ferrous metallurgy, non-metallic minerals, building materials, etc. A similar observation can be made about the effects of personal and general consumption.

As already mentioned, this type of calculation provides us with a tool to examine possible structural changes resulting from variations in final demand during the process of economic growth. They are, of course, very useful in the analysis of structural changes, but they alone are not sufficient to explain fully the nature and causes of structural changes: for example, some types of final demand will result in greater *employment* and greater use of ex-

cess *capacity* than others. Therefore we need to know, in addition, the effects of increases in each type of subject on the use of labor, capital and import. This study, however, will not examine the factors of production themselves but the factors' payments, i.e., returns on labor ("personal incomes" in Yugoslav economic terminology) and return on capital ("accumulation and funds" of "product surplus") and the full contribution of these primary inputs to the final product of the economy.

#### D CHANGING PRIMARY INPUTS

The direct primary input coefficients for 1962 and 1968 are presented in *Table II-5*, in a 29-sector breakdown. The most striking feature of the 1962–1968 changes is an increase in the compensation of workers and employees (personal incomes) relative to returns on capital (accumulation and funds)<sup>28</sup>. How could this happen in a labor-surplus economy such as the Yugoslav one? The answer is to be sought in the specific characteristics of the Yugoslav *institutional* framework:

As an American economist (J. Dirlam in [14]) pointed out, the Yugoslav system could be viewed as one in which "labor employs capital instead of a system in which capital employs labor" as in the case of capitalism. Social *ownership* of all means of production assumes, among other things, a somewhat different approach to income distribution: in 1961 workers councils became completely independent in determining wage rates and distributing income; also it was a rather specific feature of the Yugoslav labor market<sup>29</sup>.

28 The same trend is present if personal incomes and accumulation and funds are viewed as components of the social product. The share of personal incomes in the social product increased from 39.04% in 1962 to 44.77% in 1968, while the accumulation and funds share fell from 53.72% in 1962 to 45.9% in 1968. In spite of that fall, this is still a remarkably high level of accumulation comparing to other countries.

29 "To the extent that firms are inflexible in their wage offers, changes in labor market condition may not generate effective signals for adjustment by the participants. This problem appears to be the most serious when accompanied by unemployment. If there is an excess supply of labor after firms have completed their adjustment to market conditions, a lowering of contract wage rates will have no effect on the market. All that will happen is that already employed workers will receive a larger share of their unchanged full wage in the form of profit shares. There is no material incentive for firms to hire unemployed work-



Table II-5 DIRECT PRIMARY INPUT COEFFICIENTS, 1962 AND 1968

	Depreciation		Personal Incomes		Accumulation and Funds	
	1962	1968	1962	1968	1962	1968
1. Electricity	.27161	.23830	.13193	.15390	.23307	.33639
2. Coal	.12388	.12065	.19734	.25150	.25455	.27193
3. Crude Petroleum	.06828	.12095	.02964	.06100	.46001	.27193
4. Ferrous Metallurgy	.02416	.04916	.04392	.06684	.11607	.07485
5. Non-Ferrous Metallurgy	.05392	.05217	.06780	.08054	.19970	.12619
6. Non-Metallic Minerals	.04491	.06213	.14.942	.22007	.37171	.24970
7. Metal Products	.02474	.04000	.11641	.17456	.21450	.19086
8. Shipbuilding	.01594	.02458	.08108	.14872	.18127	.12962
9. Electrical Machinery, Apparatus, Appliances & Supplies	.01666	.02681	.08647	.12500	.27127	.18896
10. Chemicals	.03998	.06546	.07729	.11232	.29910	.18704
11. Building Materials	.06674	.06922	.17657	.25591	.31870	.27996
12. Timber Industry	.0970	.02915	.14326	.18269	.22869	.17136
13. Paper	.03524	.05986	.07046	.09988	.29892	.10207
14. Textiles	.0775	.03229	.09133	.13985	.25143	.16095
15. Leather and Footwear	.01269	.01736	.09496	.14449	.18759	.14678
16. Rubber Products	.01441	.04346	.07154	.15741	.39338	.25640
17. Processed Foods	.02656	.037276	.10289	.12127	.21372	.15137
18. Printing, Publishing & Allied Industries	.02612	.02841	.20322	.26818	.35793	
19. Tobacco	.00667	.01896	.03455	.10519	.59269	.14929
20. Motion Picture Production	.02503	.02214	.28301	.27560	.23459	.28002
21. Miscellaneous Manufacturing Industries	.01393	.02342	.17416	.18299	.32533	.21330

ers, and no way in which the unemployed in any numbers can make themselves more attractive to firms as prospective workers." (B. Ward in [60] pp. 222-223). Therefore, Ward concludes that "in Illyria (=Yugoslavia) the market mechanism cannot be relied upon to create full employment."

	Depreciation		Personal Incomes		Accumulation and Funds	
	1962	1968	1962	1968	1962	1968
22. Agriculture	.03021	.03166	.37206	.41738	.14390	.11341
23. Forestry	.09826	.10227	.51672	.48533	.26304	.26827
24. Construction	.02458	.02335	.19997	.25390	.23427	.18456
25. Transport & Communication	.11482	.14451	.19767	.25777	.28125	.24214
26. Trade and Catering	.02923	.02941	.21822	.20663	.61826	.66989
27. Handicrafts	.01565	.02514	.28829	.32805	.35950	.19137
28. Public Utilities	.05036	.10273	.22337	.26219	.42138	.38478
29. Scrap and Waste	-	-	.25000	.25000	.75000	.75000
Total	.03198	.04688	.18674	.22834	.26689	.23760

Source: [66] and [69]

Table II-6 TOTAL (DIRECT AND INDIRECT) PRIMARY INPUT COEFFICIENTS, 1962 AND 1968

	Depreciation		Personal Incomes		Accumulation and Funds	
	1962	1968	1962	1968	1962	1968
1. Electricity	.39108	.32205	.30372	.42633	.36916	.54762
2. Coal	.17684	.18345	.43289	.45416	.47694	.44483
3. Crude Petroleum	.16455	.18355	.17898	.35212	.60638	.49208
4. Ferrous Metallurgy	.04958	.09268	.54448	1.17699	.82939	.17734
5. Non-Ferrous Metallurgy	.12202	.16240	.33585	1.12062	.74419	.16796
6. Non-Metallic Minerals	.05257	.10319	.31003	1.43176	.45150	.46834
7. Metal Products	.03262	.06410	.99331	1.29066	1.58646	.31239
8. Shipbuilding	.03514	.05342	.63596	1.18321	.96660	.21220
9. Electrical Machinery, Apparatus, Appliances & Supplies	.04275	.06475	.50461	1.29066	.86143	.36886
10. Chemicals	.06025	.08261	.57749	1.19805	.86493	.27681
11. Building Materials	.06758	.06922	.36166	1.25591	.46294	.27996
12. Timber Industry	.07022	.12736	.73798	1.52621	.72123	.41898

	Depreciation		Personal Incomes		Accumulation and Funds	
	1962	1968	1962	1968	1962	1968
13. Paper	.06126	.08780	.36933	.84689	.51296	.37436
14. Textiles	.02592	.05535	.80653	1.31118	1.53573	.30737
15. Leather and Footwear	.10482	.12135	.86981	1.28146	.94724	.29590
16. Rubber Products	.05338	.11355	.45097	1.50677	.60729	.57270
17. Processed Foods	.05060	.08259	.70875	1.33846	1.32098	.50331
18. Printing, Publishing & Allied Industries	.03992	.07232	1.31747	1.48515	.41209	.30143
19. Tobacco	.04555	.06411	.94628	1.26649	.75674	.45238
20. Motion Picture Production	.63267	.04956	1.25964	.55802	.29183	.59093
21. Miscellaneous Manufacturing Industries	.05491	.07417	.71821	.83065	.52099	.49739
22. Agriculture	.05970	.07530	.95594	1.62178	1.71702	.63633
23. Forestry	.15531	.17392	1.68163	1.46681	.29708	.50517
24. Construction	.12900	.09361	1.72154	1.82048	1.55800	.35470
25. Transport & Communication	.232112	.16304	1.00079	1.73968	1.09907	.48831
26. Trade and Catering	.06975	.09381	.97963	.56190	1.79124	2.49816
27. Handicrafts	.05048	.07676	1.69371	1.84149	.71640	.59797
28. Public Utilities	.13780	.17351	.26517	.44918	1.35777	.92031
29. Scrap and Waste	.00000	.00000	.44700	.52621	1.09900	1.48758

Source: [66] and [69]

One of the negative results of such a situation is a relatively high rate of unemployment and inflation.

Before 1958, real wages lagged behind productivity increases and producer prices were stable. From 1958 on, real wages began to increase faster than labor productivity and the discrepancy between the two series was widened particularly in 1961–1962 and after 1964.

Table II-7 INDICES OF LABOR PRODUCTIVITY AND REAL PERSONAL INCOMES  
IN MANUFACTURING

Year	Labor Productivity	Real Personal Incomes
1963	100	100
1964	107	116
1965	111	118
1966	117	132
1967	118	136
1968	126	142

Source: [75]

According to Wachtel [59], after 1964 interindustry wage differentials also continued to increase. This fact came in conflict with the principle announced by the Yugoslav Trade Union (and broadly accepted), that wages should increase proportionally to productivity. However, in a rapidly growing economy various industries expand at widely different rates (petroleum industry at 19.2%, tobacco industry at 5.1% per annum over the 1952-56 period). Thus, rates of growth of labor productivity are bound to differ very much (11.7% and 1.2% respectively); also wages must differ and differentials must increase in time (wage rates increased 12.8 times in the petroleum industry and 8.3 times in the tobacco industry in 1952-66) [43]. M. Korać [30] found that in 1966 wage rates for *the same category of skill* in the highest paid and in the lowest paid industry group had a ratio of 2:1. All this was in contradiction with the officially declared principle of distribution according to work. That is why A. Bajt complained that the principle of remuneration according to productivity ("labor productivity" is, as a matter of fact, identified with "total factor productivity"; see Domar in [16], p. 708) actually denied the principle of remuneration according to work performed. "Total factor productivity" being different from "labor productivity" means that (total factor) productivity income differs from labor income. A case in point are the capital intensive firms which are able to improve their personal income position by distributing a part of profit in wages. However, the firms which do not operate very successfully behave in the same way. They imitate ("demonstration effect") personal income patterns of the most successful firms within their branches. It is clear that all this generates enormous inflationary pressure (at the same time both demand pull and cost push type of inflation). The faster the tempo of inflation and consequently the rise in the cost of liv-

ing, the greater the pressure to increase nominal labor incomes (“compensatory wage increase”).

To add just one more detail to the general picture of the mechanism of personal income increase: the monopolistic or semi-monopolistic position of many enterprises causes too much slackness in efforts to rationalize production. It is anyhow easier to increase prices (and personal income) than labor productivity in a situation where elaborate, systematic price and wage policies are lacking<sup>30</sup>. Let us now turn to the less dramatic aspects of the primary inputs question, namely, to the use of input-output tables in determining the allocation by final use of the efforts of the primary factors of production (here: payments to the factors) as measured in terms of value added (i.e., contribution to the gross domestic product). This is done in *Table II-8*, which summarizes the contribution of value added components to the components of end use(s). While the original input-output tables show the direct coefficients for “depreciation”, “personal incomes” and “accumulation and funds,” for each sector of the economy, they do not show who is the final consumer on whom these primary costs fall, the contribution of primary input to the final products of the economy. On the other hand, the analysis carried out with the inverse matrix, by-passing the sector interrelationships, enables each final product to be exhaustively broken down into its primary components (see *Table II-9*). One can say that this type of analysis (which is in its ultimate consequence a national income accounting approach) views the productive system as though it were composed of 29 (or 50 or 98) industries producing only final goods and purchasing only inputs from outside the system.

The breakdown of final use aggregates by primary factors (*Table II-9*) shows that personal incomes as a percentage of total final use are somewhat above the average for personal consumption and investment, in both years, and above the average for general consumption in 1962 and below the average in 1968. Accumulation and funds as a percentage of total final use are below average for investment, personal and general consumption in both years, and above average for exports in both years. In general, average share of depreciation and personal incomes in total use increased while the average share of accumulation and funds decreased over the 1962–1968 period.

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30 Or, as Ward [60] put it in the form of “theorems”:

“A change in price to a competitive Illyrian firm leads to a change in output in the opposite direction.” (p. 191) “Given the possibility of operating at a profit, the Illyrian monopolist will produce less and charge a higher price than his capital counterpart,” (p. 203)

Table II-8 CONTRIBUTION OF PRIMARY INPUTS TO FINAL USES  
(GROSS DOMESTIC PRODUCT), 1962 AND 1968

	1962				1968			
	Investment	Exports	Personal Consumption	General Consumption	Investment	Exports	Personal Consumption	General Consumption
Depreciation	22.37	14.62	49.26	8.39	22.70	15.48	50.67	6.05
Personal Incomes	17.80	12.72	58.54	5.84	30.41	12.78	46.85	4.50
Accumulation and Funds	20.26	17.50	48.49	7.63	19.33	14.18	54.65	5.07

\* Figures do not add to 100 because inventory changes are included in the total.  
Source: [67] and [69]

Table II-9 FINAL USE, BY PRIMARY INPUT COMPONENTS, 1962 AND 1968

in %

	1962					1968				
	Investment	Exports	Personal Consumption	General Consumption	Total Uses	Investment	Exports	Personal Consumption	General Consumption	Total Uses
Depreciation	7.35	8.58	7.72	5.35	7.24	6.15	9.84	8.68	10.45	9.29
Personal Incomes	47.48	35.38	39.85	54.03	39.04	48.42	43.73	45.89	43.79	44.77
Accumulation and Funds	47.59	56.04	52.43	48.62	53.72	45.43	46.43	45.43	45.72	45.95
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: [67] and [69]

E  
CHANGING IMPORT AND EXPORT PATTERNS<sup>31</sup>

*I*n Yugoslav imports' input-output tables (unlike in "basic" tables) imported commodities are classified by "industry of origin and destination", which are sometimes also called "non-competitive" and "competitive" imports. The advantage of the import breakdown by commodity lies in the analysis of import requirements and import substitution.

Direct and total intermediate import requirements are ranked in *Table II-10*, by their share in one unit of output. The list is headed by such industries whose needs for certain intermediates cannot at all, or, to a large extent, be met by domestic production, because of the *absence of necessary natural preconditions*: cases in point are shipbuilders importing high quality iron and steel, manufacturers of rubber products importing natural rubber, the textile industry importing cotton, etc. The most striking change are the increasingly imported contents of one unit of production in the petroleum processing sector. This is a consequence of large petroleum processing and chemicals manufacturing capacities which markedly exceed current production (and even deposits!) of the country's crude oil. It was expected that this tendency of import increase would continue.

The above mentioned cases are not of interest for analysis of *import substitution*. The theory of import substitution requires the isolation of those imported commodities which compete with domestic products. The shares of "competitive" imports (only final imports!) in total final use are shown in *Table II-11*. The table gives some idea about import substitution (with regard to final goods) by branches and for the economy as a whole as well. Thus, it can be seen, for example, that the share of "competitive" imports in total final use increased from 8.13% in 1962 to 8.29% in 1968. (Over the same period of time the share of imported intermediate inputs in total intermediates increased from 13 to 14%<sup>32</sup>). It is clear from the point of view of import substitution analysis that the usefulness of this table is rather limited. Much better results can be achieved using inverse import coefficients matrix from year 1962 in conjunction with the final vector of 1968. In other words,

31 See also discussion on pp. 20-22.

32 The ratio of imports whose direct destination is final use to imports of intermediates is rather stable, equaling approximately 1:2.25 in both (1962 and 1968) years.



Table II-10 IMPORTED INTERMEDIATES INPUT COEFFICIENTS, 1962 AND 1968

	Direct			Total		
	Rank 1962	1962	Rank 1968	1968	1962	1968
1. Shipbuilding	1	.30633	3	.24002	.42359	.39449
2. Rubber Products	2	.28649	2	.24889	.42617	.39917
3. Textiles	3	.16542	5	.17179	.30952	.30043
4. Chemicals	4	.16412	4	.20699	.30620	.35391
5. Leather and Footwear	5	.12820	6	.14125	.26994	.29084
6. Crude Petroleum	6	.12201	1	.26755	.41505	.48344
7. Apparatus, Appliances & Supplies	7	.11653	9	.11435	.26466	.26153
8. Coal	8	.11383	8	.112220	.19870	.20316
9. Metal Products	9	.09222	12	.08853	.23521	.22798
10. Transport & Communication	10	.08042	10	.10113	.20236	.22416
11. Ferrous Metallurgy	11	.06758	13	.08783	.29365	.33116
12. Non-Ferrous Metallurgy	12	.06279	7	.12303	.24980	.25741
13. Food Manufacturing Industry	13	.05641	14	.08528	.12599	.18109
14. Non-Metals	14	.04594	17	.05941	.12099	.16401
15. Miscellaneous Manufacturing Industries	15	.04161	11	.09917	.18374	.19571
16. Handicrafts	16	.03957	20	.04009	.12356	.16243
17. Tobacco	17	.03800	.22	.02572	.04392	.03112
18. Printing, Publishing and Allied Industries	18	.03532	19	.05090	.07878	.12030
19. Motion Picture Production	19	.03426	18	.05534	.10994	.16545
20. Building Materials	21	.03226	21	.03112	.10763	.10708
21. Agriculture	22	.01648	25	.01759	.05189	.05458
22. Wood	23	.01559	16	.06535	.11119	.14974
23. Construction	24	.00924	26	.01369	.07948	.11150
24. Public Utilities	25	.00909	24	.01981	.06625	.08907
25. Electricity	26	.00795	23	.02055	.08881	.14553
26. Forestry	27	.00374	27	.00581	.02532	.07237
27. Trade and Catering	28	.00285	28	.00315	.02408	.03001
28. Scrap and Waste	29	.00000	29	.00000	.00000	.00000

Source: [70] and [71].

a projection to 1968 should be made for imports on the basis of the 1962 import matrix and final demand of 1968; in such a way calculated (“expected”) imports are to be compared with actual imports in 1968. The difference is defined as *net import substitution*. This method, unfortunately, is not applied here. Multiplication of the total import requirements vector for 1962 by the final demand vector (used here) cannot, in any case, replace a detailed (commodity by commodity) analysis of import substitution, even though it provides a rather important bit of information – a measure of net import substitution for the economy as a whole. “Expected” imports in 1968 were 212 972 565 dinars and actual imports amounted to 26 615 051 dinars, so we can conclude that *negative* net import substitution (4 642 786 dinars) took place over a 7-year period (1962 to 1968).

It would be of great interest to analyse the capital and labor contents of these, replaced, imported commodities (and imported goods in general) as well as to examine how the country’s factors proportions are reflected in its exports<sup>33</sup>.

Table II-11 SHARE OF “COMPETITIVE” IMPORTS IN TOTAL FINAL USE,  
1962 AND 1968

	Sectors	Rank 1962	1962	Rank 1968	1968
7.	Metal Products	1	32.37	1	46.23
21.	Miscellaneous Manufacturing Industries	2	22.84	2	31.70
29.	Scrap and Waste	3	20.60	23.29	.00
9.	Electrical Machinery, Apparatus, Appliances and Supplies	4	18.20	4	21.19

33 According to the theory of comparative advantage in international trade, in a country abundant in capital (relative to labor) one would expect for exports to consist of capital-intensive commodities and imports of labor-intensive ones, and vice versa in a country where labor is cheap relative to capital. However, Leontief’s empirical investigation [35] and [36] showed that in the U.S. (in 1947), in actual fact, the opposite was the case – American exports proved to be more labor-intensive than imported competing goods. His explanation was that overall productivity in the U.S. differed from that in other countries, and that the American worker produced more with a given unit of capital than his opposite in other countries, because of advances in know-how, greater efficiency of production methods, and rich natural resources. The Leontief “paradox” has stimulated wide discussion in the literature; it has become clear that an analysis which takes into account only capital and labor is oversimplified and that there are other factors of production which must be considered too.

	Sectors	Rank 1962	1962	Rank 1968	1968
16.	Rubber Products	5	12.41	3	24.74
3.	Crude Petroleum	6	9.89	8	9.31
22.	Agriculture	7	8.99	14	3.38
8.	Shipbuilding	8	7.81	5	17.16
10.	Chemicals	9	7.50	7	10.47
4.	Ferrous Metallurgy	10	6.72	18	.61
13.	Paper	11	6.32	12	3.54
14.	Textiles	12	6.20	9	7.24
6.	Non-Metallic Minerals	13	5.93	6	11.01
17.	Processed Foods	14	5.33	15	2.52
20.	Motion Picture Production	15	4.58	10	5.26
18.	Printing, Publishing & Allied Industries	16	2.58	11	4.21
5.	Non-Ferrous Metallurgy	17	.46	21-22	.01
12.	Wood	18	.43	20	.02
23.	Forestry	19	.41	19	.31
15.	Leather and Footwear	20	.12	13	3.51
19.	Tobacco	21	.02	21-22	.01
2.	Coal	22	.00	16	2.47
11.	Building Material	23	.00	17	1.61
1.	Electricity	24-29	.00	23-29	.00
24.	Construction	24-29	.00	23-29	.00
25.	Transport & Communication	24-29	.00	23-29	.00
26.	Trade and Catering	24-29	.00	23-29	.00
27.	Handicrafts	24-29	.00	23-29	.00
28.	Public Utilities	24-29	.00	23-29	.00

Source: [70] and [71].

However, the problems related to comparative advantages, structural change and economic development will not be treated here. The scope and importance of the whole question requires special study<sup>34</sup>.

34 B. Horvat's analysis [26] of Yugoslav exports confirms Leontief "paradox", but in the opposite direction: Yugoslav export was capital intensive in spite of the relative scarcity of capital and relative abundance of labor within the Yugoslav economy.

Table II-12 DESTINATION OF DIRECT FINAL IMPORTS, 1962 AND 1968

	Share in Final Use	Imported	Share in Final	Total Use
	1962	1968	1962	1968
Gross investment	58.23	58.23	4.73	4.83
Personal Consumption	35.24	34.23	2.87	2.84
General Consumption	3.65	2.45	.30	.20
Increase in Inventories	2.88	5.09	.23	.42
Exports	-	-		-
Total	100.00	100.00	8.13	8.29

Source: [70] and [71].

Table II-13 SHARE OF DIRECT FINAL IMPORTS IN INDIVIDUAL COMPONENTS OF TOTAL FINAL DEMAND, 1962 AND 1968

	1962	1968
Gross Investment	18.92	18.45
Personal Consumption	6.00	5.77
Increase in Inventories	5.55	11.55
General Consumption	4.97	4.18
Exports	-	-

Source: [70] and [71].

Instead of analysing the structural basis of the trade relationship between Yugoslavia and the rest of the world, we will only take a brief look at what happened to the ultimate destination of imports and to the contribution of individual sectors of the economy to exports over the 1962–1968 period.

Table II-12 summarizes the changes in destination of *direct final imports*, while the following table demonstrates the (*direct and indirect*) contribution of imports to individual final use categories:

Table II-14 CONTRIBUTION OF IMPORTS TO INDIVIDUAL FINAL USE CATEGORIES - percent -

	1962	1968
Contribution of Imports to Gross Investment	13.41	21.66
Contribution of Imports to Exports	27.26	13.97
Contribution of Imports to Personal Consumption	41.87	52.62

	1962	1968
Contribution of Imports to General Consumption	9.76	4.40
Contribution of Imports to the Increase in Inventories	7.32	7.35
Total Imports	100.00	100.00

Source: [70] and [71].

Table II-15 CONTRIBUTION OF INDIVIDUAL SECTORS TO TOTAL EXPORTS,  
1962 AND 1968

		Rank 1962	1962	Rank 1968	1968
25.	Transport & Communication	1	13.776	1	14.537
22.	Agriculture	3	9.117	2	10.739
26.	Trade & Catering	7	6.473	3	9.455
7.	Metal Products	2	12.214	4	8.780
14.	Textiles	9	5.406	5	7.532
5.	Non-Ferrous Metals	8	5.998	6	7.326
8.	Shipbuilding	4	8.246	7	6.827
12.	Timber Industry	5	7.945	8	6.290
10.	Chemicals	13	2.797	9	5.104
15.	Leather & Footwear	14	2.396	10	3.954
17.	Manufacturing Food	6	6.648	11	3.851
9.	Electrical Machinery, Apparatus, Appliances & Supplies	10	4.125	12	3.104
13.	Paper	18	.996	13	1.821
6.	Non-Metallic Minerals	15	1.677	14	1.601
4.	Ferrous Metals	12	3.475	15	1.585
19.	Tobacco	11	3.937	16	1.388
24.	Construction	26	.048	17	1233
23.	Forestry	17	1.109	18	.882
3.	Crude Petroleum	16	1.652	19	.638
11.	Building Materials	19	.790	20	.460
21.	Miscellaneous Manufacturing Industries	20	.375	21	.344
16.	Rubber Products	24	.106	22	.244
29.	Scrap & Waste	23	.127	23	.222
18.	Printing, Publishing & Allied Industries	27	.035	24	.145
27.	Handicrafts	28-29	.000	25	.125

		Rank 1962	1962	Rank 1968	1968
20.	Motion Picture Production	21	.282	26	.066
2.	Coal	25	.091	27	.045
1.	Electricity	22	.159	29	.002
28.	Public Utilities	28-29	.000	29	.000
			100.000		100.000

Table II-15 demonstrates the contribution of the individual sectors to total exports in 1962 and 1968. If we single out those sectors whose shares exceed 5% of total exports (in 1968 food dropped this arbitrarily established “national export league,” while chemicals entered the “league”), we will see that the role of metal products, shipbuilding, timber, and processed foods relatively declined, while the role of transport and communication, agriculture, textiles and non-ferrous metals relatively increased. In observing the movements of these industries alone, however, only a partial impression of the changes in exports according to the degree of finish, can be gained. It is, therefore, necessary to include all sectors, and over a somewhat longer period, which is done in the following table:

Table II-16 EXPORTS ACCORDING TO DEGREE OF FINISH

Articles	Percentage of Participation							
	1952	1956	1959	1962	1966	1967	1968	1969
Crude Articles	50.2	36.7	24.5	19.6	13.4	15.9	14.1	12.4
Semimanufactures	42.8	42.8	37.0	37.6	33.2	31.5	32.0	34.3
Finished Manufactures	6.7	20.5	37.6	42.8	53.4	52.6	53.9	53.3
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table II-16 provides some additional insight into the changing pattern of export; at the same time it provides evidence which lends support to the conclusion that *comparative advantage is something that can be changed*. Insofar as the composition of exports is a useful indicator of a country’s comparative advantage, the postwar evidence suggests that the basis for Yugoslavia’s foreign trade changed. The answer to the question of whether or not the postwar shifts represent a real comparative advantage or a forced one is not clear-cut. Other things being equal, post-WWII events in the country

certainly argue that it is in part a forced one. But other things are not equal, particularly in the postwar world market.

## F CHANGES IN THE COMPOSITION OF FINAL DEMAND AND OUTPUT

We already have seen what part final demand factors play in structural change in the production system. Now we will take a look from the opposite side: what is the contribution of each sector to final demand and how this type of final demand composition changed during the period discussed. The main final good producer can be easily identified from *Table II-17*. A striking feature of the part of the table relating to final demand is the fact that share of manufacturing and agriculture declined, while the share of trade and catering, and arts and crafts increased. The same tendency is visible in the change of composition of output. This finding is consistent with a certain well known growth theory statement on the nature and direction of economic growth: in his classic pioneering study of growth, *The Conditions of Economic Progress* [12], Colin Clark observed that, with growth, resources transferred from *primary* production (agriculture, fishing, forestry, and sometimes mining)

*Table II-17* CONTRIBUTION OF INDIVIDUAL SECTORS TO FINAL DEMAND AND TO TOTAL GROSS OUTPUT, 1962 AND 1968

		Final Demand		Total Gross Output	
		1962	1968	1962	1968
I.	Manufacturing, Mining & Quarrying	49.62	45.07	52.68	47.28
	1. Electricity	.50	1.03	1.36	1.65
	2. Coal	.43	.45	1.64	1.12
	3. Crude Petroleum	.83	.37	1.65	1.13
	4. Ferrous Metallurgy	.81	.29	4.43	3.15
	5. Non-Ferrous Metallurgy	1.10	1.26	3.02	3.01
	6. Non-Metallic Minerals	.66	.51	1.07	.84
	7. Metal Products	13.34	11.35	9.18	7.49

		Final Demand		Total Gross Output	
		1962	1968	1962	1968
	8. Shipbuilding	2.24	1.68	1.39	.97
	9. Electrical Machinery, Apparatus, Appliances & Supplies	3.22	3.73	2.89	3.02
	10. Chemicals	2.41	2.72	3.19	3.63
	11. Building Materials	.16	.14	1.34	1.57
	12. Timber	2.86	2.21	3.56	2.80
	13. Paper	.28	.40	1.43	1.34
	14. Textiles	7.11	6.00	6.68	5.87
	15. Leather and Footwear	1.68	1.94	1.50	1.39
	16. Rubber Products	.47	.35	.60	.46
	17. Food Manufacturing Industries	7.42	8.05	4.85	5.68
	18. Printing, Publishing & Allied Industries	1.23	1.45	.98	1.14
	19. Tobacco Manufacturing	2.30	.82	1.59	.68
	20. Motion Picture Production	.15	.13	.11	.11
	21. Miscellaneous Manufacturing Industries	.44	.50	.34	.24
II.	Agriculture	17.88	15.47	18.42	17.08
III.	Forestry	.67	.41	1.52	1.26
IV.	Construction	14.55	16.90	11.31	13.19
V.	Transport & Communications	6.21	5.44	6.23	6.57
VI.	Trade & Catering	9.00	13.97	7.19	12.47
VII.	Handicrafts	1.40	2.02	1.75	2.28
VIII.	Public Utilities	.66	.48	.55	.52
IX.	Scrap & Waste	.03	0.5	.35	.26
		100.00	100.00	100.00	100.00

to *secondary* production (manufacturing) and *tertiary* output (services). The transition from a self-sufficient, more or less peasant economy to a relatively open industrialized economy was remarkably short in Yugoslavia: rapid economic growth (*Table 11-18* shows how rapid this was) brought about radical structural changes, these changes being also one of the major factors of that rapid growth.



Table 11-18 AVERAGE ANNUAL RATE OF GROWTH OF SOCIAL PRODUCT  
BY MAIN SECTORS

(based on 1966 prices)

Sectors	1952-1968	1962-1968
All Sectors	7.70	6.05
Manufacturing & Mining	10.54	8.15
Agriculture	5.08	2.45
Forestry	1.09	1.20
Construction	7.09	6.85
Transport & Communications	8.98	6.30
Trade & Catering	8.43	7.05
Handicrafts	5.68	5.87

Source: [72]

## G

### STRUCTURAL CHANGE AND ECONOMIC GROWTH

Theories of growth and development try to explain the causes of increases in the national income and the nature of the economic changes which accompany them. Different perceptions of the critical elements in the growth process have produced divergent approaches to the formulation and testing of these theories. *Neoclassical theory*, for example, requires a minimum specification of the economic structure because factors and commodities are assumed to be highly substitutable either in production or in demand. While rising income may lead to changes in the composition of demand and production, analysis of these changes is not considered as central to the explanation of growth or to the shaping of development policy.

However, a number of reasons have been advanced for believing that a developing economy is much less flexible and efficient than is implied by the neoclassical model. Most of these hypotheses can be described as "structural" in that they assume specific forms of structural relations that appear as limits to the neoclassical adjustment processes. Most often, the *structural hypotheses* take one of these forms: (i) limited substitution among factors or commodities; (ii) limited rates of adjustment to economic forces; (iii) po-

litical and institutional limitations to resource mobilization, wage rates, and similar.

The fact that difficulties in changing the economic structure appear to impede the process of growth in most developing economies is a sufficient reason to seek a better understanding of structural change. Various types of structural analysis, as a basis for theories of development, have been developed and, accordingly, different concepts of economic structure have been used in formulating and testing these theories. Generally, the concept of “economic structure” implies a set of relationships (e.g. the relationship between inputs and outputs) that is assumed to remain constant with respect to a specified set of changes. There are two traditions in the empirical analysis of economic structures, one based on the prior specification of a structural *model* and the other more purely *inductive*. The best examples of the inductive approach are the comparative studies of Colin Clark [12] and Simon Kusnetz [31]. Since Kusnetz does not use a formal model, he measures the structure of an economy from *accounting* concepts such as the *composition* of production, demand, trade, factor use, and other aggregates. Instead of structural *relations* in the econometric sense he is able to establish *patterns* of change in the use of resources associated with rising income. In describing these patterns, Kusnetz defines any change in composition as a “structural change”. It is much better to reserve this term for the more narrowly defined econometric concept of change resulting from shifts in the underlying structural relations. In this sense, structural change is defined by the estimated changes in the parameters of the model rather than by observed changes in the variables.

A number of scholars have used indicators other than *per capita* income in trying to discover underlying uniformities in economic and social structures. One of the most suggestive studies is that of Adelman and Morris [1] who applied factor analysis to determine the relationships among a number of economic, social and political variables in a large sample of less developed countries. Like Kusnetz, their main purpose was to discover uniformities in the process of modernization and development. They also investigated the extent to which rates of growth can be associated with the effectiveness of resource use and other social and political variables. The work sheds new light on “non-traditional” (where “traditional” are labor and capital) sources of economic growth, which had been rather neglected in growth theory. Domar [16] colorfully describes how the focus of the theory had moved from one to

another source of growth: "A historic play about growth models might consist of three acts: in the first, labor, supported by an invisible chorus of capital, land and technological progress, holds the stage; in the second, capital and labor exchange roles. Finally, in the third act now (1961!) being performed, labor, capital (and sometimes land) and technological progress appear on the stage together, with the first two (or three) readings from the script while technological progress holds forth the rest of the time." Actually, "technological progress" represents here a whole group of "actors" consisting of technological progress in the narrow sense, economy of scale, external economies, improved health, education and skill of the labor force, better management, changes in product mix and many others (see Part Two, Chapter A). The common names given to this group have ranged from "output per unit of input", "efficiency index", "total factor productivity," "change in productive efficiency," and "technical change" all the way to "measure of our ignorance". To emphasize the nature of this concept and to avoid a loaded word, Domar christened it as *residual*. Furthermore, he identified his "residual" with Leontief's (somewhat corrected<sup>35</sup>) index of *structural change*<sup>36</sup>. As a matter of fact, he treats Leontief's index as one of the methods of calculating the residual: "residual or, more correctly, its relative percentage rate of growth is the weighted arithmetic average of relative changes in the input coefficient between two points of time." Another method of expressing the residual, interpreted by Domar, is the Solow method: "residual is the ratio between an aggregate arithmetic index of outputs and inputs embodied in a linear homogenous production function."

The empirical studies stemming from Solow's aggregate model underly the neoclassical assumptions, while Leontief's input-output model has provided a basis for several empirical analyses of development based on "structuralist" assumptions. The results of each type of study give useful measures of structural change.

The application of Solow's technique (e.g. by Denison [13], see *Table II- 19*) to the United States and other economically advanced countries concluded that traditional factor growth typically accounted for less than one half of the total increase in output, the remainder being the result of changes

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35 "Leontief's index requires very few assumptions if it is interpreted in the same general sense as our residual: to contain not only technological progress as such, but economies of scale, better management, etc." [16], p. 727.

36 See Appendix!

Table II-19 SOURCES OF GROWTH OF REAL NATIONAL INCOME IN THE USA

Line	Source of growth	Share of national income (percent distribution)		Growth rates (percent per year)		Contribution to growth rate of real national income (percentage points)	
		1909-29	1929-57	1909-29	1929-57	1909-29	1929-57
1	Real national income	100.0	100.01	2.822	2.93	2.822	2.93
2	Increase in total inputs, adjusted	-	-	2.24	1.99	2.26	2.00
3	Adjustment	-	-	-0.09	-0.11	-	-
4	Increase in total inputs, unadjusted	-	-	2.33	2.10	-	-
5	Labor, adjusted for quality change	68.9	73.0	2.30	2.16	1.53	1.57
6	Employment and hours	-	-	1.62	1.08	1.11	0.80
7	Employment	-	-	1.58	1.31	1.11	1.00
8	Effect of shorter hours on quality of a man-years's work	-	-	0.03	-0.23	0.00	-0.20
9	Annual hours	-	-	-0.34	-0.73	-0.23	-0.53
10	Effect of shorter hours on quality of a man- hours work	-	-	0.38	0.50	0.23	0.33
11	Education	-	-	0.56	0.93	0.35	0.67
12	Increased experience and better utilization of women workers	-	-	0.10	0.15	0.06	0.11
13	Changes in age-sex composition of labor force	-	-	0.01	-0.01	0.01	-0.01
14	Land	7.7	4.5	0.00	0.00	0.00	0.00
15	Capital	23.4	22.5	3.16	1.88	0.73	0.43

16	Nonfarm residential structures	3.7	3.1	3.49	1.46	0.13	0.05
17	Other structures and equipment	14.6	15.0	2.93	1.85	0.41	0.28
18	Inventories	4.8	3.9	3.31	1.90	0.16	0.08
19	United States owned assets abroad	0.6	0.7	4.20	1.97	0.02	0.02
20	Foreign assets in United States (an offset)	0.3	0.2	-1.85	1.37	0.01	0.00
21	Increase in output per unit of input	-	-	0.56	0.92	0.56	0.93
22	Restrictions against optimum use of re-sources	-	-	-	-	*	-0.07
23	Reduced waste of labor in agriculture	-	-	-	-	*	0.02
24	Industry shift from agriculture	-	-	-	-	*	0.05
25	Advance of knowledge	-	-	-	-	*	0.58
26	Change in lag in application of knowledge	-	-	-	-	*	0.01
27	Economies of scale – independent growth of local markets	-	-	-	-	*	0.07
28	Economies of scale – growth of national market	-	-	-	-	0.28	0.27

1 For 1930–40 and 142–46, interpolated distribution rather than the actual distributions for these data were used. Estimates are 1929–58 average.

2 This rate, like that for 1929–57, derives from Department of Commerce estimates. Estimates by John W. Kendrick, based on adjustment to Department of Commerce concepts of estimates by Simon Kuznets, yield a growth rate of 3.17, which would result in a figure for output per unit of input (line 21) of 0.91.

\* Not estimated.

Source: [13]

in the residual, being attributed primarily to technological change. M. Bruno in [4], however, discarded the neoclassical assumption (that the factor returns are equal to marginal products), and he found strong support for the disequilibrium hypothesis in the fact that capital received less than its marginal product (and labor more). The increase in the capital stock therefore contributed considerably more to growth than would be implied by the usual form of Solow-Denison growth accounting.

The most widely used approaches to disaggregated analyses of structural change are based on various extensions and generalizations of Leontief's input-output system. Studies of a number of countries have used an inter-industry model to explain the sources of growth in individual sectors of the economy, taking changes in final demand as given (see [34]). Unlike the supply orientation of the aggregate neoclassical model, these interindustry studies are largely demand-oriented. They assume a fixed coefficient production function for each sector and use them to determine the effect of exogenous changes in sector demand and trade on levels of production. The predicted growth of each sector is then compared to its actual growth to obtain measures of structural change. "Structural change" is defined here as the change in input per unit of sector output.

The limitation of the Leontief's open *static* input-output model is well known. When we are confronted with "structural change" the question is asked whether it would be *practically* possible to extend the model so as to include these changes within the model. The same problem has been expressed by Leontief: "Within the framework of an explicitly formulated theoretical system, economic change can be explained either as structural change or as a dynamic process. In the first case, the variation of the dependent variables is simply related to the underlying changes in some of the basic data, in the second, the law of change itself is considered as given, i.e., built into the structure of the explanatory scheme. The law of change might, of course, be changing over time; this is the case of structural variation in a dynamic system."

Many "dynamic" theories has been developed, "general system theory" being one of the most interesting as far as the concept of structure is concerned. Namely, the structure of the system is treated here inseparably from the function of the system; therefore, the general system analyst talks in terms such as "structure-function", "function-structure," "structural function," or "functional structure". Structural-functional analysis (as an aspect of general

system analysis) views physiological or social systems as being constituted of individuals (“elements”, “components”, “subsystems” *interacting* as “wholes” (not simply in terms of their formal roles within the system). The concrete structure is therefore a result of the reciprocal influences of the subsystems. Furthermore, this structure is itself a totality, an adaptive “organism” reacting to influences upon it from an external *environment*. This consideration (of course in a more elaborate form) helps much in understanding the problem of changes; they are undoubtedly fruitful and significant. But the method must have relevance to empirical materials, which it to say, it must be more specific in its reference than discussions of the logic or methodology of social science. In our case it was extremely difficult to give empirical content to that concept. And because of the “information bottleneck”, this study is only a simple exercise in retrospective comparative statics, confined to the use of a combination of Leontief’s input-output and the Kuznetzian “composition” methods.





CONCLUDING  
REMARKS



## CONCLUDING REMARKS

1. It seems to be certain that, the higher the level of economic development, the higher the degree of interdependence (measured by an “index of depth”) among different sectors of the economy.

2. Also, the evidence presented suggests that “index of depth” could be an indicator of import substitution policy.

3. The phenomenon of interdependence in production is of great importance for investment decisions. Two opposite development strategies - those of balanced and unbalanced growth - derive their premises from the existence of interrelatedness.

4. It was tempting to speculate about the probable effect of these theories on Yugoslav economic development. The application of the balanced growth doctrine was unlikely to lead to a *general* upward revision of profitability estimates because in the Yugoslav economic system external diseconomies were still internalized along with the economies. Therefore, at that time, the approach which would contribute to the faster expansion of “intermediate manufactures” seemed to be more appropriate. However, in the cases of individual investment projects, this should not mean the deterioration of general SMP criteria.

5. The input-output tables show that the internal structure of the Yugoslav economy was becoming more and more complex. However, this structure was still incomplete (compared with developed economies) and the changes in it were not always articulate.

6. Abrupt, not to say dramatic changes (very often in an unexpected direction) are symbols of the rapid economic growth and flexibility of the system, but they also symbolize a deficiency in management on the macro level and prove the existence of system built-in hazards.

7. Changes in intermediate and primary inputs illustrate the above, rather general statements.

8. The evidence shows a relative stability of intermediate inputs relative to primary inputs: an increase in indirect intermediate input requirements means an increase in specialization.

9. The behavior of primary inputs (labor and capital returns, and imports) indicates the existence of structural disequilibrium (its main symptoms being unemployment and deficit in the balance of payments).

10. In general, "the structural disequilibrium case" is distinguished from the others by two sets of conditions: (i) some types of labor and capital are fully utilized while others are not; (ii) disequilibrium is not readily eliminated by price changes. The dynamics of such an economy are fundamentally different and more complex than those that characterize a system under either full employment of all resources or generalized unemployment. This case is referred to in the literature as "the case of constrained development or development with limitations (barriers)".

11. Theories of constrained development generated a number of policies that relieve the constraints on allocation and thus make possible a fuller use of resources. Development policies that produce this effect include export promotion, demand controls, foreign aid and direct allocation of investment.

## GLOSSARY

*Social product.* In Yugoslavia, a distinction was made between productive and non-productive branches, quite apart from the distinction between the socialized and private sectors, so that we have the following pictures:

	Socialized sector	Private sector
Productive branches	1	2
Non-productive branches	3	4
Social product = 1+2		
Gross national product (OECD definition) = 1+2+3+4.		

*The productive branches* consist of the following eight categories: (1) manufacturing and mining; (2) agriculture; (3) forestry; (4) construction; (5) transport and communications; (6) trade and catering; (7) handicrafts; (8) utilities.

*The non-productive branches* consist of the following seven categories: (1) education and culture; (2) social and health institutions; (3) government organizations; (4) judiciary; (5) finance and credit; (6) trade unions; (7) political and social organizations.

*The private sector* covers a large part of agriculture and, to a lesser extent, handicrafts (productive branches) as well as some free professions (non-productive branches). All the other activities are in the *socialized* sector.

It has been estimated that the social product is about 10 percent lower than the GNP.

*The economy* includes only production and services in the sectors included in the definition of "social product".

*General (or social) consumption* – public services, which are in Yugoslav statistics broken down into: (1) administration; (2) defense; (3) social and health activities; (4) cultural, educational and scientific activities; (5) banks, finance, insurance, etc., and (6) utility services and similar activities.

*Personal consumption* – private consumption.

*Accumulation and funds* (or product surplus = gross profits).

*Personal incomes* = compensation of workers and employees.

## APPENDIX

## LEONTIEF'S INDEX OF STRUCTURAL CHANGE

*List of Symbols:*

$Y$  = index of output in physical units

$A$  = residual (interpreted as an index of technological change in the broad sense)

$t$  = time

$L$  = index of labor input in physical units

$K$  = index of capital input in physical units

$R$  = index of raw material input in physical units

$\alpha$  = ratio of the value of labor input to the value of output in the base period

$\beta$  = ratio of the value of capital input to the value of output in the base period

$\gamma$  = ratio of the value of raw material input to the value of output in the base period

$\bar{Y}, \bar{A}, \bar{L}, \bar{K}, \bar{R}$ , = relative (percentage) rates of change of the respective variable per unit of time

$v$  = weight

$y, l, k, r$ , = values of the respective variables in the base period

$Y_{ij}$  = index of output of the  $i^{\text{th}}$  industry used by the  $j^{\text{th}}$  industry as an input

$y_{ij}$  = value of  $Y_{ij}$  in the base period

Assuming that technological change, "a short-hand expression for any kind of shift in the production," is neutral, Sollow starts with the production equation

$$Y=A(t) f(L,K) \quad (1)$$

and with two traditional assumptions: (1) that  $f(L,K)$  is linear and homogeneous, and (2) that factor prices equal their respective marginal products, he obtains the simple result that

$$\bar{Y} = \bar{A} + \alpha\bar{L} + \beta\bar{K} \quad (2)$$

and hence that

$$\bar{Y} = \bar{A} + \alpha\bar{L} + \beta\bar{K} \quad (3)$$

with  $a + C = 1$ . Since  $Y, L, K, a$  and  $C$  can be derived empirically,  $A$  the rate of growth of the residual can be estimated.

Leontief's method of measuring the structural change of an economy (or any part of it) consists of the following steps:

1. The absolute difference between the magnitudes of a particular input coefficient (in quantity terms) at two points of time is divided by the arithmetic mean of the magnitudes in order to obtain the relative change in the coefficient.

2. These relative changes in all input coefficients for a given industry or economy are aggregated, each change weighted by the ratio of the mean value of the corresponding input in the two periods to the sum of mean values of all inputs.

3. Since most of the changes (at least the important ones) in the input coefficients are likely to be negative (showing a saving in the use of inputs), it is convenient to place a negative sign before the index in order to make it positive.

Let the magnitudes of an input coefficient be  $q$  and  $q'$ , and the values of the corresponding input  $x$  and  $x'$ , in the beginning and in the end period respectively, then the relative change in the coefficient is

$$\frac{q' - q}{\frac{q' + q}{2}}$$

and the corresponding weight,

$$\frac{\frac{x_i + x_1}{2}}{\sum_{i=1}^n \frac{x_i + x_i}{2}}$$

indicating the number of inputs in the industry or the economy.

In order to compare Leontief's index with his residual, Domar replaces Leontief's discrete terms with continuous ones. Domar uses production

equations of the same type as above, emphasizing that Leontief's index does not depend on a particular form of the production function, except for the assumption that the sum of the values of all inputs (during the base period as defined) equals the values of corresponding output.

Case (1). One Industry Producing Final Products. Let its production equation be

$$Y = AL^\alpha K^\beta R^\gamma \quad (4)$$

with input coefficients of  $L/Y$ ,  $K/Y$  and  $R/Y$  and  $1/\alpha = \alpha$ ,  $k/y = \beta$  and  $r/y = \gamma$  as a corresponding weights. Designating the relative rate of change of Leontief's index by  $I$ , we have

$$\bar{I} = - \left[ \frac{d(\frac{L}{Y})}{\frac{L}{Y}} + \frac{d(\frac{K}{Y})}{\frac{K}{Y}} + \frac{d(\frac{R}{Y})}{\frac{R}{Y}} \right] \quad (5)$$

as

$$\frac{d(\frac{L}{Y})}{\frac{L}{Y}} = \alpha(\bar{L} - \bar{Y}), \quad \frac{d(\frac{K}{Y})}{\frac{K}{Y}} = \beta(\bar{K} - \bar{Y}), \quad \frac{d(\frac{R}{Y})}{\frac{R}{Y}} = \gamma(\bar{R} - \bar{Y}), \quad (6)$$

$$I = - [\alpha(\bar{L} - \bar{Y}) + \beta(\bar{K} - \bar{Y}) + \gamma(\bar{R} - \bar{Y})] \\ = \bar{Y} - \alpha\bar{L} - \beta\bar{K} - \gamma\bar{R} = \bar{A} \quad (7)$$

Thus for one industry, Leontief's index and Domar's residual are identical.

Case (2). Simple Aggregation: Two Industries Producing Final Products. Let the sector consist of two industries.

$$Y_1 = A_1 L_1^{\alpha_1} K_1^{\beta_1} R_1^{\gamma_1} \quad (8)$$

$$Y_2 = A_2 L_2^{\alpha_2} K_2^{\beta_2} R_2^{\gamma_2} \quad (9)$$

without any input-output relationship between them. By Leontief's rule the corresponding weights will be of the form  $\frac{l_1}{y_1 + y_2}$ ,  $\frac{k_1}{y_1 + y_2}$ , etc., because

the sum of the values of all inputs equals  $y_1 + y_2$ . Following his rule and utilizing the results of Case 1, we obtain



$$\bar{I} = \left[ \frac{(\bar{L}_1 - \bar{Y}_1)l_1 + (\bar{K}_1 - \bar{Y}_1)k_1 + (\bar{R}_1 - \bar{Y}_1)r_1 + (\bar{L}_2 - \bar{Y}_2)l_2 + (\bar{K}_2 - \bar{Y}_2)k_2 + (\bar{R}_2 - \bar{Y}_2)r_2}{y_1 + y_2} \right] \quad (10)$$

Multiplying and dividing the first three parentheses by  $y_1$  and the last three by  $y_2$ , we find

$$\bar{I} = \frac{y_1 \bar{I}_1}{y_1 + y_2} + \frac{y_2 \bar{I}_2}{y_1 + y_2} + \frac{y_1 \bar{A}_1}{y_1 + y_2} + \frac{y_2 \bar{A}_2}{y_1 + y_2} = \bar{A} \quad (11)$$

Case (3). Integration. Let the first industry produce final products and the second raw materials used by the first:

$$Y_1 = A_1 L_1^{\alpha_1} K_1^{\beta_1} R_1^{\gamma_1} \quad (12)$$

$$R_2 = A_2 L_2^{\alpha_2} K_2^{\beta_2} \quad (13)$$

The integration of  $R_2$  into  $Y_1$  gives

$$Y_1 = A_1 A_2^{\gamma_1} L_1^{\alpha_1} L_2^{\gamma_1 \alpha_2} K_1^{\beta_1} K_2^{\gamma_1 \beta_2} \quad (14)$$

and the application of the results of Case (1) of this part and of certain geometric index rules,

$$\begin{aligned} \bar{I} &= \bar{Y} - \alpha_1 \bar{L}_1 - \gamma_1 \alpha_2 \bar{L}_2 - \beta_1 \bar{K}_1 - \gamma_1 \beta_2 \bar{K}_2 \\ &= \bar{A} = \bar{A}_1 + \frac{r_2}{y_1} \bar{A}_2 = \bar{I}_1 + \frac{r_2}{y_2} \bar{I}_2 \end{aligned} \quad (15)$$

If, however, we do not integrate  $R_2$  into  $Y_1$  but aggregate (12) and (13) then the result will be

$$\bar{I} = \frac{y_1 \bar{I}_1 + r_2 \bar{I}_2}{y_1 + r_2} = \bar{I}_1 + \frac{r_2}{y_2} \bar{I}_2 \quad (16)$$

Leontief's index is not invariant to the degree of integration. His method disregards the fact that an input-output relationship among industries produces a residual, or an index of structural change, whose relative rate of

growth is larger than the conventionally weighted sum of the *As* or *Is* of the individual industries<sup>37</sup>.

## INTERDEPENDENCE AND STRUCTURAL CHANGE: SOME TENDENCES IN YUGOSLAV ECONOMIC DEVELOPMENT

### Summary

The first two decades of the second Yugoslavia were marked by strong modernization efforts *via* industrialization. This case study confirms that inter-sectoral interdependence in Yugoslav economy increased, and that the “deepening” process indicates an import substitution policy which led to increased demand for imported high quality intermediaries. Economy was becoming more and more complex, but its structure was still incomplete and the changes in it were not always articulate. Abrupt, almost dramatic, changes were symbols of the rapid economic growth and flexibility of the Yugoslav planned market socialism, but they also symbolize a deficiency in management on the macro level and prove the existence of system built-in hazards. The behavior of primary inputs (labor and capital returns, and imports) indicates the existence of structural disequilibrium (its main symptoms being unemployment and deficit in the balance of payments). The dynamics of such an economy are fundamentally different and more complex than those that characterize a system under either full employment or generalized unemployment. This case is referred to in literature as “the case of constrained development”.

### Key Words

Yugoslav Economy, growth, structural change, interdependence, backward linkages, forward linkages, combined linkages

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<sup>37</sup> Suppose a sector consists of shoes and leather, with equal *A*'s (or *I*'s) of 2% per year. Then Leontief's method would give a combined *I* also of 2%. Domar's residual would be larger because the sector benefits from a residual in the shoe *and* in the leather industries. But if leather was replaced by boots, both methods would give a combined *I* of 2%.

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## AUTHORS INDEX

- Adelman, Irma 104, 113  
 Ames, E. 52, 116  
 Bajt, A. 87, 113  
 Bhaargava, L. R. 114  
 Bruno, M. 15, 105, 113  
 Bruton, H. J. 5, 42, 191  
 Cao Pina, Vera 11325, 51, 113  
 Carter, N. A. 29, 56, 113  
 Chenery, H. B. 19, 31, 32, 113  
 Clark, C. 31, 99, 103, 113  
 Clark, P. G. 113  
 Denison, E. F. 165, 113  
 Dirlam, J. 83, 113  
 Domandžić, A. 113  
 Domar, E. 87, 117, 113  
 Dosser, D. M. 14, 115  
 Eleish, E. G. 113  
 Fleming, J. M. 37, 38, 114  
 Forssell, O. 114  
 Ghosch, A. 114  
 Gorupić, D. 16, 114  
 Hirschman, A. O. 20, 22, 32, 38, 32, 38,  
     40, 41, 114  
 Horvat, B. 94, 114  
 Ilchman, W. F. 114  
 Innis, H. A. 31, 114  
 Johansen, L. 114  
 Kendrick, J. W. 109  
 Korać, M. 87, 114  
 Kusnetz, S. 103, 104  
 Lange, O. 37  
 Leibenstein, H. 41, 114  
 Leontief, W. 13, 94, 104, 105, 107, 117,  
     112, 114, 115  
 Lerner, A. 37  
 Lewis, W. A. 36  
 Marshall, A. 35  
 Meade, J. E. 35, 37, 115  
 Meier, M. G. 115  
 Morris Taft, Cynthia 104, 113  
 Myrdal, G. 36  
 North, D. C. 31, 115  
 Nurkse, R. 36, 37, 115  
 Nyitrai, V. 115  
 Paj, I. 114  
 Popov, Sofija 115  
 Power, H. J. 115  
 Rasmussen, P. N. 49, 115  
 Rosenstein-Rodan, P. N. 36-38, 115  
 Ross, C. R. 13  
 Rostow, W. W. 31  
 Salter, W. E. G. 115  
 Say, J.-B. 37  
 Scitovsky, T. 33, 36, 115  
 Seers, D. 13  
 Shishido, Sh. 115  
 Singer, H. 36  
 Smith, A. 13, 54  
 Solow, R. 105, 107  
 Stojanović, Radmila 115  
 Stolper, F. W. 115  
 Streeten, P. 115  
 Treml, G. V. 116  
 Uzawa, H. 48, 116  
 Vassiliou, S. 14, 116  
 Viner, J. 35  
 Vukojević, Leopoldina 19, 114, 116  
 Wachtel, M. H. 86, 116  
 Ward, B. 23, 87, 116  
 Watanabe, T. 31, 48, 115, 116  
 Watkins, H. M. 116  
 Yan, Ch. 22, 116

## SUBJECT INDEX

- Accumulation and funds 61, 83, 87, 88, 107
- Analysis
  - cost-benefit 36
  - factor 104
  - input-output 77
  - linkage 51
- Assembly industry 19
- Balance of payments 17, 100
- Black box 54
- Bottlenecks 39, 57
- Branches (sectors)
  - non-productive 115
  - productive 115
- Customs protection 19
- Chain reaction 13
- Classification, two-channel 56, 58
- Coefficients
  - outputs 13
  - inputs 13, 48, 49, 51, 52, 57, 83, 105, 117, 118
- Comparative advantage 94, 98
- Competition 18, 58, 74, 75
- Conditions of Economic Progress* (K. Clark) 99
- Consumption
  - personal 81, 85, 106
  - intermediate 31
  - general (social, public) 81, 88, 107
  - final 14, 41, 77, 81
- Correlation diagram, two-channel (Carter's) 56
- Deepening of production process 15
- Demand 14–16
  - intermediate 14, 15, 20
  - final 14, 41, 42, 47, 54, 81, 94, 99, 100
- Division of labor 54
  - international 17, 49
  - sectoral 51
- Doctrine
  - balanced growth 36–38
  - unbalanced growth 38, 39
- DPA = Direct Productive Activities 38
- Economic development 13, 17, 39, 41, 99, 105
  - with constrains (barriers) 107
  - frustrated 107
- Economic growth 99, 103, 107
  - balanced 113
  - unbalanced 113
- Economy of scale 100
- Effect
  - demonstration 86
  - backward linkages 31
  - forward linkages 31
  - pincer cum feedback 40
- Employment 80 81
- Export 17, 18, 77, 93, 94, 95
- External economies (or diseconomies) 53–58, 101, 106
  - external effects 25, 37
  - externalities 35
  - monetary 37
  - neighborhood effects 35
  - side effects 35
  - spillover effects (spillovers) 35
  - technological (Viner) 37
- Foreign trade 16, 17
- General System Theory 105
- Illyria / Illyrian 83, 87, 93
- Import
  - liberalization 18, 19
  - competitive 91, 92
  - non-competitive 91



- Income 14, 82
  - personal 80, 86, 107
  - national 30, 102
  - per capita* 13, 14, 42, 101
- Index
  - depth 15–17, 53, 109
  - structural change (Leontief's) 104, 101–104
- Indirectness of production 15, 20
- Industrialization 14
- Institutional framework (Yugoslav) 81
- Instrumentalism 3, 104, 105
- Interdependence
  - investment 32
  - sectoral (structural) 13, 15, 35, 51
- Linkage 51
  - backward 13, 40
  - combined 40, 41
  - forward 20, 29, 40
- Logarithmic scale 15
- Master industries 39
- OECD 107
- Ownership sectors
  - private 107
  - social 89, 107
- Paradox (Leontief's) 93
- Pincer effect 40
- Power of dispersion (Rasmussen) 40
- Principles of Economics* (Marshall) 113
- Problems of Industrialization in Southeastern Europe* (Rosenstein-Rodan) 35
- Production function 35, 48, 101, 112
- Productivity
  - labor 86, 87
  - global (factoral) 86, 87, 102
- Products
  - staple (Innis) 31
  - intermediate 14–18, 18, 19, 51, 77
  - semi-finished (semi-final) 87, 88, 99
- Residual (Domar) 103, 104, 110–112
- Say's Law 37
- Second World War (WWII) 16, 36
- Sectors
  - leading (Rostow) 31
  - enclave exporting 19, 40
  - enclave importing 40
  - intermediate 41
  - primary (Watanabe and Chenery classification) 31
  - primary, secondary and tertiary (K. Clark classification) 31, 100
  - natural hierarchy of sectors 30
  - satellite 38
  - final (Watanabe and Chenery classification) 30
- Self-sufficiency (autarky) 18
- Sequences (of investment) 38
  - compulsive 38
  - permissive 38
- SMP criteria 111
- SOC = Social Overhead Capital 39
- Social product 107
- Specialization 13, 40, 53, 54, 110
- Structure, intersectoral (input-output) 13, 14
- Substitution 38
  - factors of production 38, 40, 47, 58
  - import 14, 16, 19, 92, 94, 106
- Supply 31, 37
- Technological change 47–49, 54, 110
- Trade Union 86
- Volume of production 13, 47–49, 54



INTEGRATION AS THE POOLING  
OF LABOR AND RESOURCES:  
THE YUGOSLAV EXPERIENCE



## IDEA OF POOLING LABOR AND RESOURCES

Associated labor is considered here primarily in its dynamic aspect, that is, more as a *process* (of associating) and less as a constructed finished *system*. The association (hereafter termed “pooling”) of labor is (still) followed by the pooling of (financial) resources and will be necessarily so followed until such times as resources are so abundant that their value equals zero. This pooling of resources in the concept of the Yugoslav system of self-management cannot, however, be the only aim but is based on the interests of the associated workers (which originates from the technical-technological and economic interdependence of the parts of the labor within the total social labor). Bearing in mind the importance of the interest aspect in the pooling of labor and resources, the normative fixation of this phenomenon, which should provide the realization of the social relations proclaimed, is inevitable. Defining certain rules and instruments, it also technically regulates and makes precise their (obligatory or facultative) organizational forms. These normative frameworks undoubtedly influence the process of pooling labor and resources. Above all, they channel them in a socially desirable direction and, with their technical perfection and built-in motivational component, normative solutions also affect the intensity and direction of the pooling of labor and resources. Apart from being influenced by the normative frameworks, the tempo and structure of pooling is also conditioned by the objectively provided material basis. This, apart from the general (relatively low) level of development, also includes considerable territorial differences in development, and discrepancy in the availability of resources (shortage of social “capital” and relative abundance of labor), as well as other structural disproportions and obstacles which act as brakes on every process of development, even on that which happens (or ought to happen) through the pooling of labor and resources.

The analysis of pooling labor and resources can thus be viewed in different ways. These approaches are usually of two kinds: one which places great-

er importance on the fast and efficient development of production forces, and the second which is primarily concerned with further promotion and perfection of production relations. If the content and idea of pooling are viewed in class terms of the realization of the historical interests of the direct producers, then pooling represents on a given historical level (and within its limits) a mechanism of faster and more efficient economic development as an essential precondition of working class and general emancipation. Bearing this in mind, separate concentration on and somewhat more detailed analysis of the developmental aspect of the pooling of labor and resources is fully justified. (This developmental approach by no means underestimates the effects which pooling has on the improvement of production relations and on the realization of strategic socialist goals generally). Each analysis of the developmental aspect of the pooling of labor should include the macroeconomic implications of this phenomenon (manifested primarily in the mobilization of accumulation) as well as the microeconomic motives for the pooling of economic subjects (the organization of associated labor). To this should be added the need to study the pooling of labor and resources from the geographical, that is "national", aspect which, apart from the questions of the inter- and intra-regional development of production forces, also includes with regard to Yugoslav conditions the specific inter-republican/provincial dimension, that is relations between the various peoples or nations within the Federation.

The Yugoslav Associated Labor Act (hereafter the ALA) [ALA 1977 (1973)], article 2, derives the necessity for the pooling of labor and resources from the social character of labor, and this is in turn expressed in natural dependence and interlinkage of workers within the social division of labor and social reproduction as a whole. Here without doubt the old truth (pointed out even by Adam Smith) is valid: the higher the level of economic development, the greater the degree of interdependence of different sectors (and of individual subjects) in the economy.

With regard to the Yugoslav economy, one can speak of a relatively high degree of technological interdependence in the sphere of intermediate production [Očić 1977]. In other words, considered in the most general terms, this means that objective material assumptions exist for the pooling of labor and resources (unlike in the economies in which many cells in the intersectoral matrices are empty).

Besides this assumption, a series of other assumptions have been fulfilled which, considered conceptually, should start up the processes of very

intensive pooling. The basis of all the forms of the pooling of labor and resources (as well as the basis of the “self-management integration of social labor”) has been precisely defined in the ALA; that is the Basic Organization of Associated Labor (BOAL) which is the new basic cell of reproduction in the economy and in society. In contrast to the BOAL, which is an “indivisible” and “permanent” organization, the Work Organization (WO) is a particular association of BOALs which, in principle, can easily change its composition and orientation to meet the requirements of demand and/or the preferences of its members. Although thus “flexibly” conceived, the Work Organization is in essence the best organized variant of a general form of the pooling of labor and resources (considered from an organizational standpoint). This pronounced flexibility in principle characterizes the whole selfmanagement organizational structure. It can be concluded that the new organizational forms principally represent the optimal framework for the pooling of labor and resources. They have, among other things, been introduced because of this (intensifying of linkage, pooling, integration on a new basis.) In this sense, they should represent the negation of closedness and isolation of classic organizational forms such as, above all, the enterprise. The openness of the new organizational forms and their basic high propensity towards pooling is expressed in several ways: a) the BOAL as the basis of pooling cannot exist independently, since it is part of the process of production, and it is thus necessarily, by definition, directed toward related and technologically dependent parts of the production process; b) in this way, all BOALs are, in principle, the advocates of the pooling process, a distinct from models in which only some subjects (which have achieved a great concentration of resources) are initiators of pooling; c) the BOAL through its Work Organization can at the same time be associated with several larger BOALs, and this opens unlimited possibilities for intensifying mutual linkages between basic economic subjects.

Such flexibility of organization enables almost ideal adaptation to the requirements of technical-technological progress, on the one hand, changes in market preferences, on the other, and opens wide possibilities for the pooling of labor and resources. Thus the BOAL, and also other OALs, are, in the organizational sense, maximally adapted to the requirements and needs of pooling labor and resources. The BOAL is equipped not only *organizationally* for the processes of pooling. These rights are guaranteed to it as basic rights, i. e., in the highest law of the state (the Constitution). It is, as is generally,

known, “capacitated” for pooling both in a (*self-*)*management* and *techno-economic* sense. It still remains to be seen whether the BOAL is also *economically* motivated for pooling. What in general is the basic motive for the economic activity of the BOAL? Does the question of the goals of its business activity need to be considered positively or normatively, i.e., does one need to investigate how economic subjects (in given circumstances) really behave or how they ought to behave? If one chooses the second approach, one should precisely state the reasons for deviations of desired from *real behavior*, and one should define economic system and economic policy measures which would stimulate economic subjects to behave in a “standardized” way. Since we have been moving up to now on a conceptual and normative plane, I will dwell only on two statements. The ALA (art. 45, para. 3) defines income as the fundamental “motive for work and the scale of measuring the efficiency of production”. The thus normatively given “goal function” of the BOAL can meet the requirements imposed on some economic subjects, and it is, in principle, sufficiently “attractive” an aim which taken as a whole leads to (or should lead to) a dynamic and structurally harmonized expanded reproduction, that is to the pooling of labor and resources as the basic mechanism (the backbone) of that process. If we leave aside broader questions related to the so-called double income pattern (Edvard Kardelj), which originates from the fact that it appears as the basic motive of economic activities as well as the basic motive of the class struggle and revolution, then it will be seen that some problems arise in the process of the operationalization of the concept of income (as an economic category), i.e., in the process of its practical implementation. Generally speaking, analysis of the causes of the negative tendencies which appear in practice shows that they are caused either by a deficiency in the concept itself (for example, in its insufficiently representative reflection of the movement in the rate of labor productivity: labor productivity stagnates or falls and at the same time income increases – conceptually “incorrect” or even impossible, but in practice a very frequent occurrence) or by different forms of deviant behavior in practice (for example, inflation, stagnation, and various other manifestations of economic crisis) which spoils an otherwise correct concept. Instead of this analysis, which would take up too far from our present subject, we will consider only the normative operationalization of the concept of income as an indicator of business success, as stated in article. 140 of the ALA. The enumeration there in of obligatory indicators (as pointed out argumentatively by certain critics [Babić 1982: 347–68]) could also be inter-



puted as a (voluntaristic) relativization of the indicators and their role, that is, as a *de facto* setting aside of a (single, key, dominant) economic criterion (or economic criteria in general) in the behavior of economic subjects. Such a non-monistic normative regulation of one undoubtedly important question can cause a certain confusion and diversity in the behavior of economic subjects (with great negative practical consequences), but this does not need to bring into question the income category itself which, considered at a certain level of abstraction can (in principle) be defined as the fundamental motive for economic activities and the basic measure of the business success of the BOAL, the basic economic subject and decision-maker in the reproduction process and in the process of pooling labor and resources. Specific problems related to income as a motivational criterion arise in fact in the process of pooling resources. The problem of sharing in joint income is of a practical but also conceptual, that is normative, nature. One should not especially emphasize the importance of the practice of joint income sharing as an alternative mechanism of the concentration and allocation of accumulated funds: as a self-management alternative to the classical capital market and the central investment fund, this mechanism ought to procure an adequate mobilization of accumulation (in the whole of the Yugoslav economy), that is, starting from the point where it was created to those where it will be most efficiently used. Apart from the need to ensure the economic optimum, other important metaeconomic functions have also been entrusted to this mechanism in the sphere of creating and reproducing self-management relations.

How does this mechanism realize the roles assigned to it? Let us consider only its economic functions. Two questions can be posed: can it function at all, and can it function in such a way as to ensure the optimal allocation of resources? The question of the possibility of functioning is in fact a question of motivation: are the economic subjects motivated to pool (labor and) resources so as to achieve a share in joint income? (Is there a general motive operating here, or some specific motives related exclusively to the arrangements for pooling labor and resources?) With regard to the stipulations in articles 82–85 of the ALA, it seems that even those who have a surplus of resources are not stimulated to offer them to potential users, and the latter are not interested in ascertaining them. The potential providers of these resources are destimulated by the high risk connected with residual income (“net income”,) which remains “after the allocation of resources for personal incomes and for collective consumption of workers in the basic organiza-

tions which have in their business made use of pooled resources” (ALA, Art. 82, para. 5). The uncertainty that the BOAL which uses the resources can be provided with the means for personal incomes and collective consumption which enjoy priority (plus probably “resources for the expansion of the material base of labor“, according to ALA, art. 82, para. 4) diverts the BOAL, a potential provider, from the pooling process even in cases where the share of joint income is greater than the average bank interest rate. On the other hand, the BOALs who are potential users are not interested in the pooled resources, since they have to pay compensation for their use, which is higher than the normal interest rate (it has to be higher so that the provider of resources can be attracted to pooling). All this together (in principle and in practice) negatively affects the mobility of accumulation. Para. 1 of art. 85 of the ALA (“the share shall expire upon the refund of the value of pooled resources together with compensation, or upon the expiration of the time limit determined by the self-management agreement, irrespective of the amount in which the value of pooled resources has been refunded”) can additionally destimulate the mobility of accumulation. Under such unfavorable conditions, it is difficult to imagine joint ventures between OALs on economic optimal points; instead of this, investment by the BOAL in itself or (under the influence of non-economic structures) investment on the territory of its “own” socio-political community, and also the increase of personal income, appear to be much more attractive choices. The mechanism of participation in joint income seems to function only in exceptional cases (and not universally as was foreseen) especially in the cases of investment projects from which an extremely high rate of return (with a very small risk) is expected and when striking structural deformations in the economy exist.

In the first instance, restrictive behavior by economic subjects (their readiness to participate only in exceptionally promising projects) leads to reduced mobility of accumulation. Such behavior guarantees on the other hand that a certain part of the investment resources will be rationally used, in fact, in the best possible way. (Maximal micro-profitability does not, however, always imply the appropriate macro-”desirability“.)

In the second instance, investment which should eliminate “bottle-necks” (in order to provide permanent and stable supply of the “critical commodities” referred to in ALA, art. 86) will undoubtedly act as an equilibrating factor and contribute to the improvement of the economic structure, but will not (because, following the existing technological links, it behaves

conservatively) contribute to the solution of problems in the structural transformation of the economy. In this sense, the mechanism of joint income sharing can in itself (as it is now normatively stipulated) provide neither a static nor even less a dynamic optimum. In order that this mechanism develops its own potentials, it should be based in a greater measure on economic criteria and motives and/or (because of its metaeconomic quality: in principle non-exploitative, it negates capital-relation, i.e. it enables the concentration of resources on the basis of co-operation and not only on the basis of capitalization) should be supported by various measures (rather in the domain of economic policy than by some special funds for stimulation) so that it can “enliven” and expend its field of action. (Reasons for such stimulation could probably be found in the sphere of some long-term economic interests.) And in the case of active support, however, it can be shown that the scope of this mechanism is limited. In this case, if it turns out that many unsolved problems (the elimination of deep structural disproportions, the construction of large infrastructural facilities and the like) remain beyond its reach, then this mechanism should be supplemented with other complementary mechanisms which would (altogether) provide the fast growth and radical structural transformation of the Yugoslav economy.

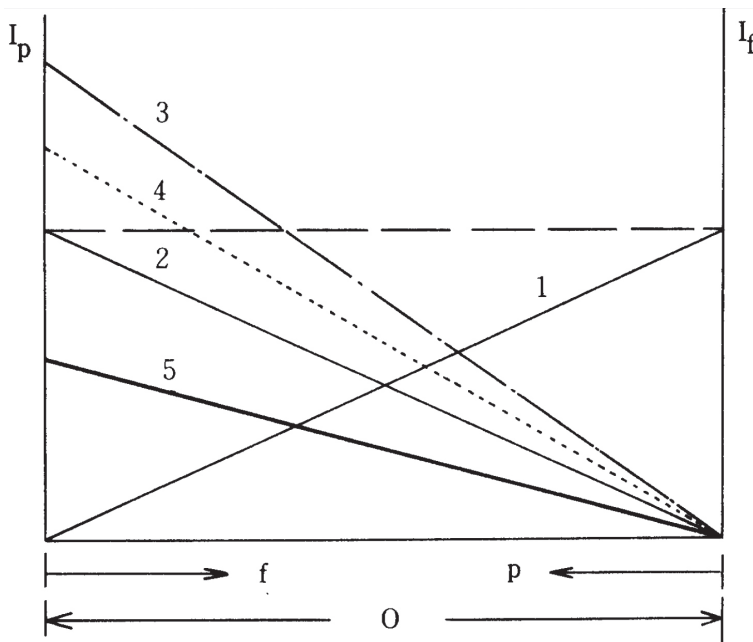
#### IMPLEMENTATION DIFFICULTIES

*U*p to now, the pooling of labor and resources has been discussed exclusively from the *conceptual* and *normative* point of view and attempting to point out certain obstacles, but above all the developmental potential of pooling. These potentials are undoubtedly high. However, as is generally known, the *practice* of pooling is exceptionally unsatisfactory: for example, with regard to the establishment of investment resources, the pooled resources are still *quantité négligeable*. I have considered some examples of “de-pooling” and closure in various fields [Оцић 1982: 73–93] primarily bearing in mind the “inter-regional” (republican/provincial) aspects of that process. The data quoted therein show that the intensity to date of the inter-regional pooling of labor and resources has not been in accordance either with ideo-political goals or with planned targets or developmental needs. This refers especially to the circulation of social resources (capital) between developed and undeveloped regions. The problematics of pooling the BOALs of the developed

and underdeveloped republics and provinces, observed through the prism of the Federal Fund for Financing the More Rapid Development of the less Developed Republics and Provinces, have certain particular characteristics. Analysis of them helps one to recognize the general problem of the motivation for pooling. The main reason for slow and insufficient pooling is usually quoted as general shortage (with its concomitant dispersion) of resources, i. e. the low accumulative ability of the BOAL. Contrary to this, the Fund today represents the largest concentration of (the most qualitative) resources, which is (in view of the virtually complete dearth of resources from abroad) a fact that cannot be easily disregarded. The existence of such resources which are automatically (by force of law) concentrated, can in every case be interpreted as an additional impulse for pooling. In the same direction, it could be said that an element of obligation comes into play: the BOALs treat the compulsory loan to the Fund virtually as a fiscal obligation, and this acts as a somewhat milder compulsion, that is, as a particular kind of sanction for non-pooling. Within the framework of the general obligation of setting aside money for the regions which have the status of underdeveloped, "free" pooling amounts to 50% of the resources (earlier, from 1976 to 1980, 20%), which is related to the quota of the republic or province in question. During this process, the BOAL can choose between two alternatives: either the whole amount of the quota can be directly invested in a BOAL in the underdeveloped region (pooling), during which the investing BOAL has access to part of the resources from the quota of "its" republic and can also count on part of the resources set aside in this way in the underdeveloped region where its business partner comes from, or this amount can be transferred in the form of a compulsory loan. If this loan is treated as a kind of sanction for non-pooling, we can then conclude that it in some ways stimulates the BOAL to adopt the first type of behavior, that is, to pool resources within the given institutional framework.

In contrast to this potential stimulus, another characteristic of pooling through the Fund can act in a limiting way. Namely, development programs in which resources are invested jointly must (it is normatively stated) accord with the mid-term development plans of the underdeveloped regions. Here the different business interests of BOALs in developed and underdeveloped regions (which originate in the differences in regional economic structures) are expressed. The BOALs in developed regions are more interested in joint ventures in the fields of raw materials, energy, and the servicing of final pro-

ducts, while the underdeveloped republics and the province of Kosovo give priority to the construction of higher phases manufacturing capacities and greater employment of the labor. This limitation is objectively conditioned but does not seem to be insuperable. This is only one of the reasons for sporadic inter-regional pooling but is, it appears, not the most important one. According to the experiences of the past few years, these causes can be classified into several groups: of a systemic-legal, organizational, economic or incentive nature. The defect in the analysis dealing with these questions arises from the fact that many causes are quoted (important and less important) but all are treated on the same level. If we separate out several basic ones, the situation undoubtedly becomes clearer. The factors which influence the decision of the BOAL to pool resources (or to pay into the Fund) are summarised in the following diagram.



Key:  $O$  = the BOAL's obligation, carried out by paying into the Fund for compulsory loans ( $O$ ) or pooling ( $p$ )  
 $I_p$  = inflow of income into the BOAL from pooling  
 $I_f$  = inflow of income into the BOAL in the form of interest in the event of paying into the Fund in the form of a compulsory loan

In cases where the BOAL decides on a compulsory loan to the Fund, then in the next period the inflow of income will be equal to the amount of interest received on that loan – line 1 in the diagram. The outflow of income will in that case equal zero. In situations in which it decides on pooling in maximalist cases, the BOAL will (taking into account legal constraints) realize an inflow of income which will equal that in the case of the compulsory loan – line 2 – and also an additional inflow on the basis of a series of indirect useful effects from pooling – the spaces between lines 2 and 4. In the “inflows” from pooling, one should also count the different “incentives” (the difference between lines 3 and 4). The outflow of income in the case of pooling arises because of the risk and costs of initiating development programs (and in later phase the costs of organizing co-operation with co-investors). Taking into account that in the previous period the incentive was almost non-existent (assuming that  $3-4=0$ ) and that the above-mentioned costs of pooling expressed in the outflow of income from the BOAL are equal to the difference between lines 4 and 5, then the level of real pooling – line 5 – is lower than the level of discharging the obligation of the BOAL through its compulsory loan to the Fund – line 1.

In the period from 1976 to 1980, this level amounted to 127.1 million dinars or only 0.83% of the total possibilities (or 0.16% of the total resources of the Fund). In reality thus the limitations on the pooling of labor and resources were very severe (as with those roughly indicated on the diagram, so with many others). Of the obstacles of a “systemic-legal” nature, the one that is quoted most is that which represents a specific illustration of the general problem of motivation for participation in joint income: the annual share of the BOALs which invest resources can amount in the income of the BOALs in which the resources are invested only to the amount of the yearly annuity due to them from the compulsory loan, although the investor undertakes the business risk. Bearing in mind the organizational reasons for slow pooling, it is very often pointed out that there is a great dispersion of (relatively meager) resources which are at the disposal of the BOALs mutually loosely linked (by rarely properly coordinated program of long-term co-operation), and when it is a question of those further apart geographically, an insufficient mutual exchange of information can be noted. Socio-political units are interested in the income realized in their BOALs being used entirely on their territory and do not stimulate further pooling of labor and resources. As far as inter-republican/provincial pooling is concerned, one could quote the regulations of certain socio-political communities which directly obstruct pooling.

The last two factors mentioned above (atomization of the economy and domination over it of non-economic factors) have a broader negative influence on the pooling of labor and resources. Organizational fragmentation is the consequence of the insufficiently developed material base of the Yugoslav economy. Under such conditions, the labor pooled in the BOAL is still “alienated labor“, that is, the pooling will be carried out (and will be carried out for a long time) within the framework of commodity production, whose laws (in spite of a forest of regulations, bureaucratic arbitrariness and with considerable social costs) find their own way in the last resort. This important fact is often neglected and it is assumed that the new legislation means an automatic change in real social relations and a new (improved) quality in the sense of the absence of any (market or state) mediation. Such “ecological idealizations,” i.e. an almost idyllic treatment of the environment in which the socio-economic subjects operate can have very damaging practical implications. In such interpretations, one starts from the assumption that organizational changes on the micro level, that is, changes in the system of management in the basic socio-economic cell directly, automatically (and “without residue”) determine structure and relations on the market and the economy and society as a whole, and that there is no exogenous effect of these factors on the micro subject, i.e. the structure of the market and the economy, and the distribution of power in society, cannot in even the slightest measure “infect” or “spoil” relations within the BOAL (and between BOALs), nor deform (in any way) the practical implementation of the BOAL in relation to its original idea.

The way in which the BOAL is constituted has an influence on the existing fragmentation (and unsatisfactorily weak links between the parts) of the economy. “Quantitative” criteria (technological and economic indicators of a certain “optimum”) are in the background, the “will of the workers takes pride of place; on this depends the concretizing of the right of the whole, i.e. of the enterprise” (meaning the Work Organization). This will determine the constituting of the BOAL [Balog 1973: 608]. It is exactly about this will, which becomes evident during the constituting of the BOAL, that some authors complain: “This procedure (constituting) is so simplified that only a subjective estimate, unsupported by argument, and the opinion of the workers that conditions exist for the constitution of part of the Work Organization as a Basic Organization are needed for this part to be so organized.” [Babić and Čećez s.a.: 8]. The will of (and legal possibilities, that is judicial support

for) a relatively small number of people (Babić and Čećez cite the example of a BOAL with only three workers) to constitute themselves as a BOAL can be the expression of a real need for the realization of their self-management interest, but also behind this (only apparently subjective) decision can stand a partial, egoistic interest in monopolizing part of the social property in order to acquire certain advantages. This problem should be perceived in a broader sense bearing in mind that is very characteristic of the present day Yugoslav economy and society as a whole. Namely, different organizations (from economic subjects to socio-political communities at all levels) – and also individuals – aspire to acquire, consolidate, and perpetuate their monopoly of management over certain parts of (relatively weakly protected) social property. The possibility that, through the erosion of social property, one arrives at the formation of the material basis of many particularistic and mutually conflicting interests, is the basic source of conflicts to that degree in which, on the basis of management and the partial privatization of social property, certain advantages can be acquired. Certain subjects become interested in widening their control over social resources regardless of where these resources will give socially optimal effects. This possibility has, it seems, grown with the process of so-called “BOALization” which is marked to a greater extent by the pooling of labor (in the organizational sense) rather than by the self-management pooling of resources; (this pooling of resources is not only a particular technological imperative nor only a need for the realization of the economic optimum in the allocation of resources, but is also an essential “amalgam” which is leading the process of integration of the Yugoslav economy and society). What has happened in fact is a deconcentration of resources and the formation of particular hybrids which are in their “base” BOALs and in their “superstructure” (professional departments) – enterprises. These new entities (“big heads on little shoulders”) show mainly those negative tendencies characteristic of the (classical) enterprise, but without their positive sides. This picture is a rather simplified one (and painted in somewhat dark tones), as is *Table 1* below, which points out the principal differences between (the concept of) the BOAL and the enterprise.

A schematic (and schematistic) review compared with the economic reality can conjure up for us to a certain degree the discrepancy between the imagined and real characteristics of the BOAL. With regard to our present concern, the interesting characteristic is the openness or closedness of basic economic subjects. A large number of dwarf-like, relatively isolated economic cells give the economic structure the dominating characteristic of



atomization. These cells carry a great burden of the management costs of the economy and of society which, under the conditions of a relatively low level of global development and realization of economic sub-optimum over a longer period of time leads to a sharpening of economic and social contradictions. Instead of overcoming them in the sphere in which they have arisen, attempts to overcome these contradictions are made (and there may even appear illusions as to the possibility of their abolition) by enormous normative activity.

*Table 1* PRINCIPAL DIFFERENCES BETWEEN THE BOAL AND THE ENTERPRISE

BOAL	Enterprise
Primarily socio-economic and then economic subject	Primarily economic category (although also plays the part of a basic cell in the reproduction of social relations)
Labor (Pooling of labor)	Capital (Pooling of resources)
Income	Profit
Openness (Great tendency to pooling)	Closedness (Cocoon-like tendency to autarky)
Primary line of connecting with other units: vertical (technological inter-dependence), firm connections stability	Primary line of connecting: profitability, and therefore all kinds of connecting (both vertical, horizontal and diagonal) which contribute to this; secondarily: reduction of uncertainty, dispersion of risk (conglomerates)
Stability (Based on the long-term mutual interest)	Uncertainty (Short-term interest, absence of global planning)
Long-term development interest (Development programs-planning)	Short-term interest (profit)
Co-operation: harmonization, reconciliation, absence of conflict	Competition: aggression (expansion, growth), state of conflict
Solidarity, distribution	Growth (expansion)
Autonomy, equality, ("Network" of relations)	Domination ("Pyramid")
Transparency (Personal self-realization) (Emancipation)	Mediation (Alienation) (Exploitation)

## INTEGRATION AS THE POOLING OF LABOR AND RESOURCES: THE YUGOSLAV EXPERIENCE

### Summary

Associated labor is considered primarily in its dynamic aspect, that is, more as a *process* (of associating) and less as a constructed finished *system*. The association (hereafter termed “pooling”) of labor is (still) followed by the pooling of (financial) resources and will be necessarily so followed until such times as resources are so abundant that their value equals zero. This pooling of resources in the concept of the Yugoslav system of self-management cannot, however, be the only aim but is based on the interests of the associated workers (which originates from the technical-technological and economic interdependence of the parts of the labor within the total social labor). Bearing in mind the importance of the interest aspect in the pooling of labor and resources, the normative fixation of this phenomenon, which should provide the realization of the social relations proclaimed, is inevitable. Defining certain rules and instruments, it also technically regulates and makes precise their (obligatory or facultative) organizational forms. These normative frameworks undoubtedly influence the process of pooling labor and resources. Above all, they channel them in a socially desirable direction and, with their technical perfection and built-in motivational component, normative solutions also affect the intensity and direction of the pooling of labor and resources. Apart from being influenced by the normative frameworks, the tempo and structure of pooling is also conditioned by the objectively provided material basis. This, apart from the general (relatively low) level of development, also includes considerable territorial differences in development, and discrepancy in the availability of resources (shortage of social “capital” and relative abundance of labor), as well as other structural disproportions and obstacles which act as brakes on every process of development, even on that which happens (or ought to happen) through the pooling of labor and resources.

A schematic (and schematistic) review compared with the economic reality can conjure up for us to a certain degree the discrepancy between the imagined and real characteristics of the BOAL. With regard to our present concern, the interesting characteristic is the openness or closedness of basic economic subjects. A large number of dwarf-like, relatively isolated economic cells give the economic structure the dominating characteristic of atomization. These cells carry a great burden of the management costs of the economy and of society which, under the conditions of a

relatively low level of global development and realization of economic sub-optimum over a longer period of time leads to a sharpening of economic and social contradictions. Instead of overcoming them in the sphere in which they have arisen, attempts to overcome these contradictions are made (and there may even appear illusions as to the possibility of their abolition) by enormous normative activity.

### Key Words

Yugoslavia, self-management system, structural interdependence (linkages), integration, pooling of labor and resources, implementation issue

### ABBREVIATIONS

ALA = Associated Labor Act  
 BOAL = Basic Organization of Associated Labor  
 OAL = Organization of Associated Labor  
 WO = Work Organization

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CONVERGENCE OR DIVERGENCE?  
REGIONS IN FORMER YUGOSLAVIA 1952-1988



## REGIONAL DISPARITIES

A generally accepted answer has not yet been given to the question of whether regional differences originate or disappear in the course of the development process<sup>1</sup>.

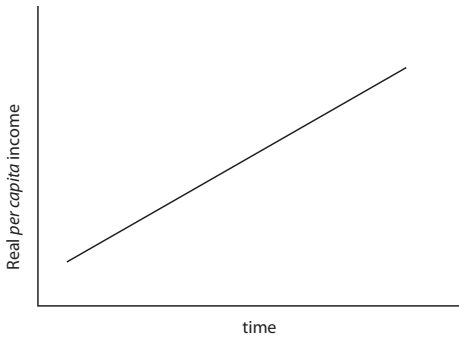
Generally, the observation of regional differences in development attracts attention in many ways. Specifically, it helps with the understanding of the so-called North–South phenomenon.

It shows that the dichotomous classification of countries (into developed and underdeveloped ones) is faulty; S. Kuznets [Kuznets 1957] noticed half a century ago that such a classification is oversimplified and showed that differences appeared especially within a group of underdeveloped countries where according to G. Myrdal cumulative and circular causes of poverty are in effect [Myrdal 1957].

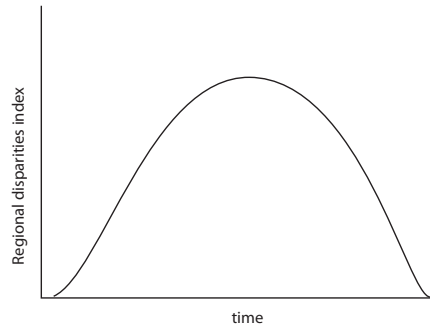
J. G. Williamson undertook the first comprehensive comparative study of the phenomenon of internal regional differences [Williamson 1965]. He studied 24 countries to that effect and calculated for each of them the dispersion of weighted *per capita* income for individual regions. In order to take into account the different sizes of regions and their different number in a proper manner, he used three different dispersion measures [Williamson 1965: 40], which offered similar results. According to Williamson, if two sets of relations (first, real *per capita* income in some country and time and second, some measure of regional disparity and time) were observed for a long period, then they would be similar to those shown in *Graphs 1* and *2*.

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1 The answer to that question in neo-classical regional analysis has been given in the two following works: G. H. Borts, The Equalization of Returns and Regional Economic Growth, *Economic Journal*, vol. 70, 1960, pp. 319–47; and G. H. Borts, P. Stein, *Economic Growth in a Free Market*, Columbia U. P., New York, 1964. An alternative answer is contained in the works by G. Myrdal, *Economic Theory and Development*, Yale U. P., New Haven 1958 and other authors (See Chapters 4 and 5 in: Harold Brookfield, *Interdependent Development*, Methuen, London 1975).



Graph 1. Global economic growth path



Graph 2. Williamson: regional disparities change pattern Source: [Hewings 1977: 2].

Graph 1 describes a path of global economic growth of a country in accordance with a long prevailing concept of development (as economic growth). This is well illustrated by A. Lewis's definition of a subject of his *Theory of economic growth*: "The topic of this book is *per capita* growth of production ... economic growth, and not distribution; second, not consumption but production."

Today, however, it is evident that, in many countries, we cannot wait for underdeveloped regions to develop without bringing into question the stable development of the national economy. Sometimes, due to the regional problem, the state order or even its survival is at stake [Očić 1998].

Graph 2 describes a universal pattern of regional disparities changes, as seen by [Williamson 1965: 15]: "Ever increasing regional income disparities and growing North–South dualism are typical for early stages of development, while regional convergence – disappearance of strict North–South problems – is typical for more mature stages of national growth and development."

This argument, based on a comparison of relative indexes in a sample of countries at various levels of development, as well as on historical tendencies in individual countries, is usually considered to be a *reconciliation of two main types of theories of (regional) development – balancing and unbalancing*. The second is considered characteristic for early stages of development and the first one for more mature economies.

Many implications may be inferred from the existence of such an 'unwavering' law, which provides for a convergence of regional incomes as a natural by-product of economic development:



1. An inherent contradictoriness of economic growth between efficiency (rate of global growth) and equality (regional inequality). Regional inequalities are the price that underdeveloped countries must pay in some period in order to achieve economic maturity, which automatically leads to less severe regional inequalities.

2. Regional planning thus has to be secondary in relation to the global growth policy. If redistribution of income is necessary because of political or social reasons, it should be known that a part of economic efficiency and economic growth are sacrificed.

3. The relation of economic growth and regional inequalities should be considered universal. Williamson's argumentation implies that an 'iron' law is in force independently of a model of strategy of development or (capitalist or socialist) 'production relations'<sup>2</sup>.

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2 PR of China can serve as a multi-faceted example of how important regional disparities are, of disputes related to regional divergence and convergence, and finally as an indication as to whether Williamson's law is universal or valid only for capitalist market and perhaps not for socialist economies. Only a small part of new literature on regional disparities in China will be quoted here: A. Hu, Ch. Wang, X. Kang. *Regional Disparities in China*, Liaoning People's Press, Shengyang 1995; K. Y. Tsui. Economic Reform and Interprovincial Inequalities in China, *Journal of Development Economics*, 50, 1996, pp. 353–368; J. Chen, B. M. Fleisher. Regional Income Inequality and Economic Growth in China, *Journal of Comparative Economics*, 22, 1996, pp. 141–164; World Bank, *Sharing Rising Incomes: Regional Disparities in China*, The World Bank. Washington, 1997; X. Tian, R. Duncan. China's Inter-Provincial Disparities: An Explanation, *Communist and Post-Communist Studies*, vol. 32, 1999, pp. 211–214; Y. Wu. Income Disparity and Convergence in China's Regional Economies, *Discussion Paper 9915*, Department of Economics, University of Western Australia, Nedlands, <http://www.econs.ecel.uwa.edu.au/economics/dpapers/DP1999/9.15.pdf>; X. Tian. *China's Regional Economic Disparities Since 1978. Main Trends and Determinants*, Singapore University Press, 1999; H. Sun. Economic Growth and Regional Disparities in China, *Regional Development Studies*, vol. 6, 2000, pp. 43–66; S. Démurger. Infrastructure Development and Economic Growth: An Explanation for Regional Disparities in China?, *Journal of Comparative Economics*, vol. 29, 2001, pp. 95–117; *China's Regional Disparities: Issues and Politics*, eds. V. F. S. Sit, D. Lu, Nova Science Publishers, New York, 2001; C. Fang, W. Dewen, D. Yang. Convergence, Divergence and Conditions: Explaining Regional Disparities in China, *China and World Economy*, vol. 2, 2002, pp. 17–24; Cai Fang, Dewen Wang. *Regional Comparative Advantages in China: Differences, Changes and Their Impact on Disparity*, The Institute of Population and Labor Economics, Chinese Academy of Social Sciences, Beijing, December 2003; X. Wang. *China: Regional Disparity, Policy Adjustment and New Challenges*, <http://www.eias.org/conferences/euchina611/regionpolicy.pdf>; C. Fang, W. Dewen, D. Yang. Explaining Regional Disparities in China, in: *China: An Economics Research Studies Series*, vol. 1: A Fresh Perspective, Eastern University Press, Singapore, 2004, Ch. 5: pp. 61–77; X. Fu. Limited Linkages from Growth Engine and Regional Disparities in China, *Journal of Comparative Economics*, vol. 32, 1, 2004, pp. 148–164.

4. The developing countries nowadays should follow the development pattern that the developed countries have already passed through in various stages. In other words, K. Marx and W. W. Rostow are considered to be right.

5. The idea of strategic *industrialization* connected with a process of *urbanization* stood behind fast economic growth.

6. It is considered that the market mechanism is capable of providing for the efficient allocation of resources and, accordingly, for a high rate of growth<sup>3</sup>, or that this is at least possible through state intervention.

7. The idea of territorial balance should not be abandoned even if the existing evidence contradicts it. Even in cases when it is admitted that the game of market power leads to greater inequality, territorial balance is achievable as long as it is accepted that there are potentials of hidden dynamics in the capitalist economy and that certain efforts will be made to enable these dynamics to work after a certain turning point. This is the idea of reverse polarization formulated by Richardson in 1981 [Richardson 1981], and it has many common elements with the essence of the doctrine resulting from Williamson's work.

It seems that Williamson's 'unwavering' law is valid – or out-of-fashion models may have a longer life-span despite the severe criticism they are exposed to. Williamson's theory was also a criticism (and revision) of a previously widespread opinion according to which a vicious circle (*circulus vitiosus*) of poverty rules in underdeveloped countries, as formulated by Winslow [Winslow 1951] and Nurkse [Nurkse 1953]. Applied on regional disparities within underdeveloped countries, this means a constant process of growing regional differences.

Until the 1950s little attention was paid to the problem of regional disparities in underdeveloped countries; research was focused on developed countries, primarily the USA. A new approach, based on the ideas of Win-

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3 On various views of the relation between market and regional disparities, see: Z. Pjanić, Tržište i regionalni razvoj, in: *Neravnomerni regionalni razvoj u ekonomskoj teoriji i praksi*, ed. K. Bogoev, K. Miljovski and N. Uzunov, MANU, Skopje 1980, pp. 155–174; D. Salvatore, The Operation of the Market Mechanism and Regional Inequality, *Kyklos*, vol. 25, 3, 1972, pp. 518–536; N. Genovese, G. Sobbrino, Regional Inequality and the Market Mechanism - A Comment, *Kyklos*, vol. 26, 3, 1973, pp. 621–623; D. L. McKee, Regional Inequality and the Market Mechanism - A Comment, *Kyklos*, vol. 26, 3, 1973, pp. 624–626; D. Salvatore, Regional Inequality and the Market Mechanism - Reply, *Kyklos*, vol. 26, 3, 1973, pp. 627–633.

slow and Nurkse, was formulated by Myrdal – the principle of circular and cumulative causation [Myrdal 1957]. It starts from the fact that the image of automatic system stabilization represents a false analogy for the explanation of changes in the social system, considering that the balance is based on a false representation that every change of system automatically causes an opposite change. According to his theory, such a tendency of automatic system stabilization does not exist. In a normal case, he writes, a change does not cause a change of opposite sign, but the first change initiates and supports other changes that drive the system in the same direction as the first change. Due to such circular causality, the social process tends to be cumulative and often acquires growing speed. This process, thinks Myrdal, can be stopped if new exogenous changes oppose it. Balancing powers, however, are not within the system, so the system remains unstable. Every new exogenous change therefore acts through a reaction of cumulative changes within the system in the direction of new change.

This means that under *caeteris paribus* conditions regional disparities will continuously intensify, unless the impact of exogenous powers opposes them, such as for instance the discovery of mineral resources, the development of new production procedures (which requires a new factor combination) and other factors that could lead to changes of the economic or political constellation. The consequences, however, are not necessarily the elimination of regional imbalances. It is on the other hand possible that a qualitatively different regional imbalance would appear as an outcome, that the position of one region would get better while that of the other would get worse, and that there would be no narrowing of regional differences. However, observed from an inter-temporal point of view, if Myrdal's logic is followed, no balancing may occur and regional differences may remain (in the sense of an unchanged hierarchy of the regions), while certain indicators of regional development may change. This is why, in this paper three representative indicators are taken when measuring regional disparities, instead of only one indicator, as is usually done.

Table 1. THE PROPORTIONS OF THE REGIONAL PROBLEM:  
THE PARTICIPATION OF UNDERDEVELOPED AREAS  
IN RESPECTIVE AGGREGATES OF YUGOSLAVIA

Characteristics / Year	1947/52	1965	1988
Area	(34.5%) 39.7%	39.7%	39.7%
Population	(26.0%) 30.6%*	33.8%	38.5%
Employment	(22.4%) 24.2%**	24.6%	29.3%
Capital assets	(18.1%) 19.8%**	25.3%	27.1%
National product	(21.1%) 23.4%***	22.0%	22.6%

Year 1948; \*\*1952; \*\*\*1947

## THE REGIONAL PROBLEM IN YUGOSLAVIA

The regional problem in socialist Yugoslavia (1945–1990) was not only an issue of economic disparities: both the ethnic problem and the question of state order were reflected through it as well. It was a result of various historical influences<sup>4</sup> that created the mosaic of cultural patterns. This is the source

4 “In order to understand the historical influence,” points Kosta Mihailović, “it should be taken into account that in the past the territory of Yugoslavia represented a periphery of two empires. Bordering areas are less developed as a rule.” (*Регионална стварност Југославије*, Економика, Београд, 1990, p. 16) Jovan Barać writes about it picturesquely: “Conquering nations took only river valleys and plains, while the domestic element escaped into impassable rocky grounds and swamps. However, no matter from which side the conquerors came... our country has always been at the periphery..., far from the *centrum* of the conquering nation, so to speak, always temporarily occupied, always exposed even in the most peaceful times to guerrilla warfare and attacks by other conquerors or adventurous barbarian tribes; over thousands of years it has always been jeopardized and always on the border. There is no part of our country without at least some kind of military frontier or border-land (Тимочка крајина, Босанска крајина, Кордун, Крањска, etc.)...” (*Проблем пасивних крајева*, Земун 1939, pp. 12–13). Speaking about the military frontier, Pavle Mijović observes this phenomenon within a wider context: “The greater territories of the two great ancient towns of Bar and Ulcinj... are best characterized by their historical name ‘military frontier’ (kraјina). Since the second half of the 11<sup>th</sup> century, when our first South-Slav state on the South Adriatic was established, Byzantium has only touched this bordering territory... The name of this area ... is a reminder of a rarely interrupted state of war on both sides of the river Boјana. This military frontier of ours is not only the oldest one... but it is situated at the crossroads of great ancient civilizations, the prehistoric Illyrian, Hellenistic and Roman civilizations and, in the Middle Ages, the Roman, Slavic and Turkish civilizations. The geographical character of this military frontier on the border between the East and the West has since ancient times determined the outcomes of all fruitful and

of its complex nature and extreme importance within the Yugoslav context. A specific seal on the approach of solving regional problems was set by the ruling ideology. The scale of regional problems can be theory, methodology and practice.

If society values egalitarianism more, then the decision-makers and the public are more sensitive to existing regional differences; the opposite is true of a society that prefers liberalism.

Depending on the theoretical concept of overall and regional development, the scale of regional problems can be identified with the geographical dimensions of underdevelopment, understood for instance as the share of the traditional sector in the overall economy or as the existence of absolute or relative poverty.

When quantifying the proportions of regional problems, the level, units of observation, their characteristics (expressed by appropriate indicators) and the type of statistical representation should be taken into account. The republics and provinces at the federal level and municipalities at the republican/provincial level are the *units of observation* in determining

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pernicious contacts made by both those worlds... Since God knows when, all conflicts on this military frontier and in its vicinity were world conflicts, and if they appeared as local, it was only an illusion of complex contradictions among the great powers.” (Павле Мијовић, Вјечно на Крајини, in: *Вирпазар. Бар. Улицу, Обод, Цетиње – Београд*, 1974, p. 11). More or less, this applies to all South-Slavic military frontiers.

The “Krajiška” (Крајина = Military frontier; see also: Украина/Ukraina) etymology in toponyms in the former Yugoslavia can be traced from derived ones (Krajišnik, Krajište, Krajiška Kutinica) to direct ones: in Slovenia Bela and neighboring Suha Krajina, Krajina in Montenegro (between Rumija and Skadar Lake). Žarko Vidović thinks that the whole “territory of Montenegro and Brda represents a Venetian military frontier” as a complement to the Austrian military frontier: “The military frontier as a Serbian historical institution was Venetian (in Montenegro and Dalmatia) and Austrian (Lika, Kordun, Banija, Banat until Temisoara, Srem)”. (Жарко Видовић, *Његош и косовки завјет у новом вијеку*, „Филип Вишњић”, Београд, 1989, pp. 66, 67).

About military frontiers, see also: М. Радека, *Горња крајина или Карловачко владичанство. Лика, Крбава, Гацка, Капелско, Кордун и Банија, Савез удружења православних свештеника СР Хрватске*, Загреб, 1975; Г. Станојевић, *Далматинске крајине у XVIII вијеку*, Историјски институт, Београд + Просвјета, Загреб, 1987; *Војне крајине у југословенским земљама у новом веку до Карловачког мира 1699*, ed. В. Чубриловић, САНУ, Београд, 1989; Д. М. Берић, *Славонска војна граница у револуцији 1848–1849*. Просвјета – Институт за историју у Сарајеву, Загреб – Сарајево, 1984; С. Накићеновић, *Книнска крајина*, СКД „Зора”, Београд – Книн, 1990; В. С. Дабих, *Војна крајина. Карловачки генералат 1530/1746*, Свети архијерејски синод Српске православне цркве, Београд 2000, С. Јовић, *Етнографска слика Славонске војне границе*, Чигоја штампа, Београд 2004.

the proportions of regional problems. The precision of measuring, naturally, depends on the gauging precision of the unit of observation. Territory, population, employment, capital and national product are representative *features* of every unit of observation and it is necessary to express the proportions of regional problems in each of them - as a *level index* of chosen indicators or as their participation within the total. In case of expressing by the level index, the measure may be the global *average* or *the most developed region*.

From the practical aspect of social/state intervention in “problematic” regions, the proportions of the regional problem are defined by the possibilities of solving it and are primarily determined by the degree of the country’s general development. In general, only such a determination of proportions is practically relevant, since the scope of intervention means for the realization of the regional policy goals is determined on the basis of it. This, however, does not mean that the proportions of the regional problem were determined in such a way. Their official determination, in fact, was the *resultant* of the relation between regions’ *power*, *economic interests*, *political will* and ruling *ideological postulates*.

The status of underdevelopment and the scope of transfer depended on (unlimited) desires on one hand and on (limited) possibilities on the other.

The percentages in brackets refer to Bosnia and Herzegovina, Macedonia and Montenegro, which according to the first five-year plan (1947–1951), held the status of underdeveloped republics. The percentages without brackets, in addition to these three units, include Kosovo and Metohia.

Estimates regarding the scale of regional problems vary<sup>5</sup>. First of all, the “official” scale of the regional problem within the Yugoslav framework (defined by the *official status* of underdevelopment granted to the republics

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5 There is a general agreement that this is a long-term structural problem. According to French sociologist Georges Gourvitch “structure is something stubborn that resists changes”; Galbraith attempts to persuade us that this is true: “Let it be supposed that in 1880, the railroad by then being a thing of reasonable comfort and convenience, one journeyed around Eastern Europe over the territory that is now celebrated as the socialist camp. The highest and best-distributed standard of living would have been found in what is now German Democratic Republic. The next highest would be in Bohemia, now Czechoslovakia, followed by Slovenia and Croatia in what is now Yugoslavia. Hungary and the Austrian and German parts of Poland, Rumania, and Bulgaria would be yet poorer. Poorer still would be Macedonia, Montenegro, and parts of Serbia... The same journey today... would show virtually the same *relative* states of prosperity and poverty...” (J. K. Galbraith, *The Nature of Mass Poverty*, Penguin, Harmondsworth, 1980, p. 6–7).

and provinces shown in *Table 1*) *does not correspond to reality*, since the boundaries of underdevelopment do not correspond to the borders of the republics and provinces. A more realistic treatment of the regional problem in terms of territorial scope existed only in the period from 1960 to 1965<sup>6</sup>. Even then, however, there were underdeveloped *enclaves* outside the officially determined underdeveloped areas or within developed areas, while within “the compact southern area of Yugoslavia that was (according to 1961–1965 Plan, *note by Č. O.*; See *Graph 3b*) considered underdeveloped there were certain towns and small industrial centers that, considered separately, did not have the characteristics of the economically underdeveloped areas. Therefore, a compact, southern part of Yugoslavia, where 1/3 of the entire population of the country lived, could have been considered to be an economically underdeveloped area of Yugoslavia (*underlined by Č. O.*). According to the number of inhabitants, such a marked area almost corresponds to the results of the analysis of economic development according to municipalities...”

Every analysis according to municipalities would undoubtedly show the differentiation inside both developed and underdeveloped areas. Namely, there are pockets of underdevelopment inside the developed areas, as well as developed centers within underdeveloped areas.

Yugoslav regional policy, however, insisted firmly on the simplified *dichotomous division* between the economically developed and underdeveloped republics and provinces (which has never had *de facto* support in reality). The consequence was as follows: in 1948, 30.57% of the Yugoslav population lived on territory that, after the World War II almost continuously held the status of underdevelopment (Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo and Metohia), while, in 1965, this rose to 33.84% of the Yugoslav population. In 1990, the percentage increased to 40.23%.

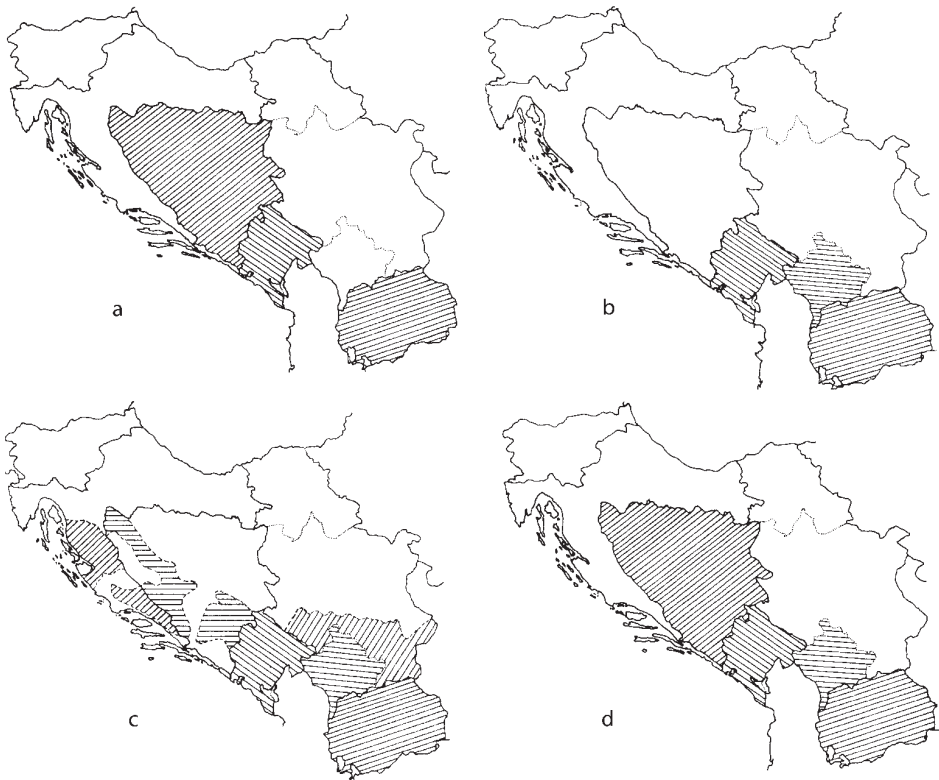
Taking into account only these data, Yugoslav regional policy, which (especially in the period from 1965–1990), disregarding the interdependence of development of all regions, was reduced to one specific segment of re-

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6 The Social plan of the economic development of Yugoslavia for the period 1960–1965 treated the area of 105.450 km<sup>2</sup> or 41.2% of the total national territory as underdeveloped, and in 1960 the population of this area was approximately 6.2 million, or 33.2% of the entire Yugoslav population. (D. Vasiljević, *Nerazvijena područja*, in: *Privredni sistem i ekonomska politika Jugoslavije*, ed. by Lj. Marković, B. Mijović + Ž. Bulajić, Rad, Beograd 1961, p. 324).

gional development, i.e. to the development of underdeveloped areas – could be considered unsuccessful since it did not lead to a reduction in the number of people living under conditions of underdevelopment but, rather, to an increase in that number. It was actually a rigid and rough determination of underdeveloped areas: regional policy clashed with the real proportions of the regional problem, so that the presented data did not show what happened with the population economically within such an imprecisely defined area of underdevelopment.

The units of observation in this paper are former Yugoslav republics and provinces. Here also, which is a frequent case, the researcher is forced to operate with the existing administrative and political delimitations, regardless of whether they fulfill the economic criteria of regionalization or not. Consequently, the term ‘region’ (for the republic or province) will be used conditionally [Kubović1974]:



Graph 3. Underdeveloped areas in Yugoslavia



“...The regional aspect of social and economic development appears as a component... of development, i.e. as one of proportions of development that the structural coordination of development in general depends on, and consequently the development of the whole country. It is important for the development of Yugoslavia as much as it is important for the republics and provinces. However, the question may be asked what territorial units should represent the regional aspect of the development of Yugoslavia. Considering that SFRY is the union of Yugoslav nations and their states-republics, it is obvious that from the level of Yugoslavia the territories of republics (and provinces) should be taken into account for the requirements of consideration of the regional aspect of development, but they should not be treated as regions. Therefore, the regional aspect of the development of Yugoslavia should not be termed ‘the development of republics and provinces’. It could be called the regional aspect of the development of Yugoslavia only *conditionally*, for practical and analytical needs. The real regional aspect of the development of Yugoslavia would be one that would treat territorial regional units as regions, more precisely Yugoslav regions, but officially we do not have such regions” [Kubović1974: 57–59].

Certain efforts in the direction of regionalization at the Yugoslav level, which appeared occasionally from 1945 to 1974 in order to define such regions for the purposes of a more successful global and regional development, did not yield fruit. With the exception of the period from 1961 to 1965, the republics and provinces or, to be more precise, the underdeveloped republics and the province of Kosovo and Metohia, were in the focus of attention at the Yugoslav level. Until 1965 they were considered to be within the “spatially coordinated” and, since that year, within the “spatially uncoordinated regional policy target system”.

Yugoslav regional policy was basically characterized by a *double reductionism*:

1. Focusing on republics and provinces (as Yugoslav “regions”) primarily (only since 1965), and
2. Orientation towards underdeveloped Yugoslav regions.

The official definition of underdeveloped Yugoslav regions has changed over time (See *Graphs 3a, b, c and d*).

- a) From 1947 to 1957
- b) From 1957 to 1961
- c) From 1961 to 1965
- d) From 1965 to 1990

Table 2. YUGOSLAVIA, REPUBLICS AND PROVINCES:  
SOME BASIC CHARACTERISTICS

	Area in km <sup>2</sup>	Agricultural area	Population	Active capital assets, social sector, acquisition value, prices in 1972.	Participation in %	
					Workers in the social and private sector, annual average	National product of the entire economy, prices in 1972
	1988-	1988	1988	1988	1988	
JUG	100.0	100.0	100.0	100.0	100.0	100.0
BIH	20.0	17.7	18.9	15.3	15.7	12.8
CGO	5.4	3.6	2.7	3.2	2.4	2.0
HRV	22.1	24.2	19.9	25.8	23.6	25.4
MAK	10.1	9.1	8.9	5.8	7.7	5.6
SLO	7.9	6.9	8.2	16.9	12.5	16.7
SRB	34.5	38.5	41.5	33.0	38.0	37.5
CES	21.9	21.8	24.8	20.6	25.3	25.0
KIM	4.2	3.6	8.0	2.8	3.5	2.2
VOJ	8.4	13.1	8.7	9.6	9.3	10.4

The specific weight of the republics and provinces in Yugoslavia is determined by indicators from *Table 2*: the participation in total and agricultural area, population, capital assets, employment and domestic product<sup>7</sup>.

The institutional, or social and historical context for solving regional problems in Yugoslavia in the observed period was changing: from the standpoint of regional development, two main stages can be differentiated – until 1965 and after 1965.

During the observed forty years, economic ties between Yugoslav republics and provinces were realized in various manners and various (social, political, economic) surroundings. Formal and then cooperative (and, according to some authors, only façade) federalism, amended or redefined by new constitutions, was combined or pushed aside by elements of the (conflicting) confederation. National equality was largely equated with the equality of republics

7 The specific weight of the Yugoslav republics is also shown on the maps presented in *Graph 4*. The program for designing these maps for the needs of this work was created by Dr. Vladeta Filipović from the “Mihailo Pupin” Institute in Belgrade.

and provinces. The focus on components of development as a whole changed considerably (social – national, political – economic), and in the economic sphere the concept of development and the institutional framework also changed considerably: from central planning, through market planning and the self-management system based on agreements between microeconomic subjects), to a market-oriented or, more specifically, a mixed economy...

The specific characteristics of the Yugoslav regional scene (the multi-national structure of the country, the federative state system and considerable differences in the degree and structure of economic development among and within certain areas) impose the need for a discussion on Yugoslav regional relations to be held both within the context of economic rationality and in the light of conceptual political orientations, i.e. the main national strategies that treated Yugoslavia either as a mere transition or as a permanent solution to ethnic and/or state-related issues.

Yugoslav regional policy stubbornly insisted on a simplified dichotomous division into economically developed and underdeveloped republics and provinces (which, as we have already mentioned, *de facto* never had support in reality). The bipolar interest regional configuration under conditions of a rather formalized political decision-making procedure (consensus) had, as its unavoidable result (“by default”), the perpetuation of decisions and a deepening of existing problems, especially because the original outcome of the interest “coordination” was based on a bad political compromise [Ершич 1986]. The mechanism of the transfer of funds from developed to underdeveloped regions caused double dissatisfaction: both those on the giving and the receiving ends were dissatisfied. The developed areas put up a resistance to the high priority that the interregional division enjoyed, while the poor areas resisted the growing tendency of applying distribution criteria (especially profitability) in investments evaluation, and strongly opposed the idea of controlling the use of transferred money. In that battle, the question of whether regional differences diminished or increased had a very large practical importance: if the differences increased then the request of the underdeveloped to increase the aid funds was justified, while if they decreased it would mean that the strategic goal of “fast development of all with faster development of the underdeveloped” could be achieved with a smaller inflow of assets into the Federation Fund for the Underdeveloped. Did regional differences really increase or decrease? Was the process of increase (decrease) constant or temporary? Did all relevant indicators show the same tendencies? This paper gives an accurate answer to these questions on the basis of empirical analysis and, considering the available statistical data, these answers should be considered as final.

MEASURING REGIONAL DISPARITIES<sup>8</sup>

As opposed to Williamson, who uses only national product *per capita* for the purpose of international comparison of regional disparities, in this paper employment per 1000 of working age population and capital assets per working age inhabitant are used in addition to this indicator.

The formulas according to which the trend of regional differences is quantified are as follows:

$$V_1 = \left\{ \sqrt{\sum_i [y_i - \bar{y}]^2 (f_i / n)} \right\} / \bar{y}$$

$$V_2 = \left\{ \sqrt{\sum_i [y_i - \bar{y}]^2 / N} \right\} / \bar{y}$$

$$M = \left\{ \sum_i |y_i - \bar{y}| (f_i / n) \right\} / \bar{y} \cdot 100$$

Where:  $N$  = number of regions = 8, and  $i$  = Bosnia and Herzegovina (BIH), Montenegro (CGO), Croatia (HRV), Macedonia (MAK), Slovenia (SLO), Central Serbia (CES), Kosovo and Metohia (KIM) and Vojvodina (VOJ).

In case of the indicator *employment per 1000 working age population*:

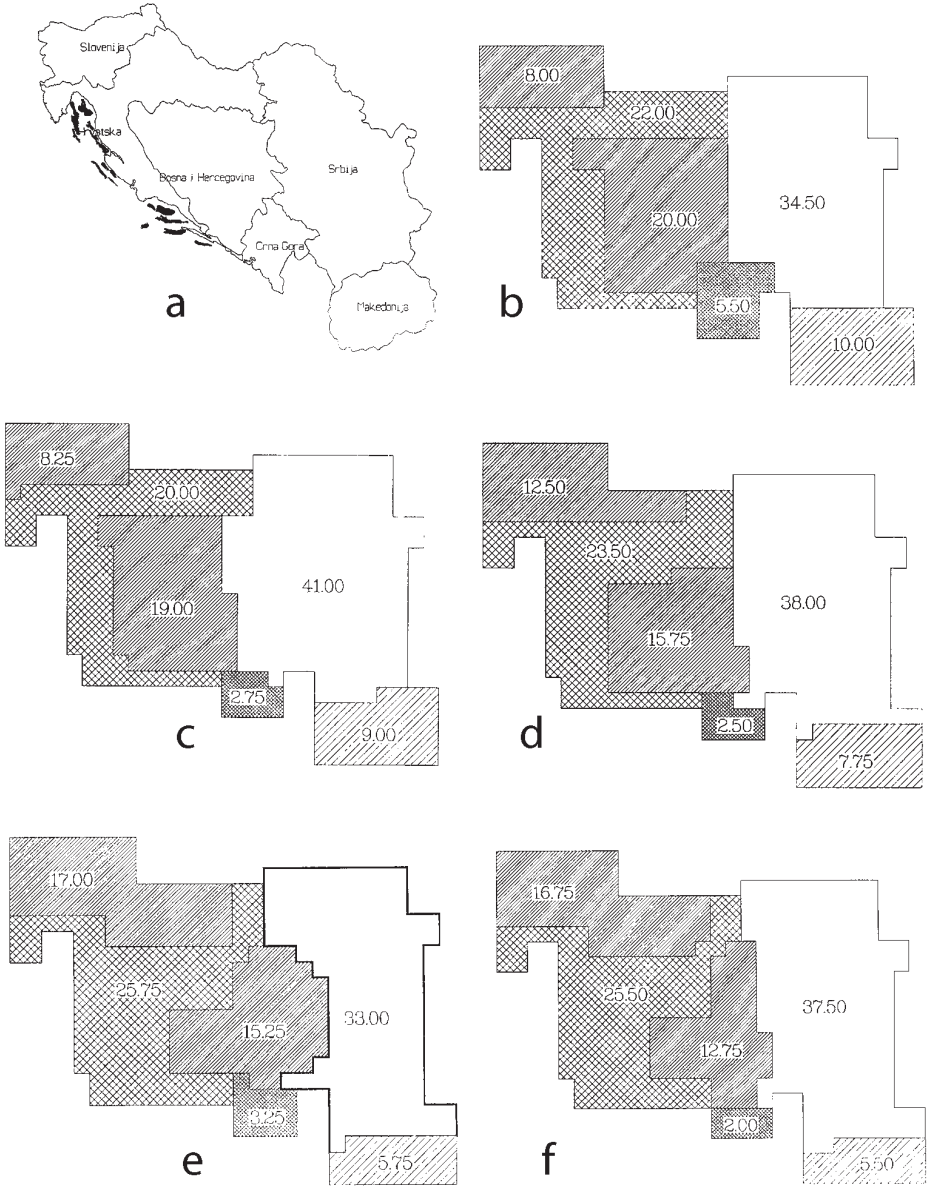
$y_i$  = employment per 1000 working age population in  $i$ -region,

$\bar{y}$  = employment per 1000 working age population in Yugoslavia,

$f_i$  = working age population of  $i$ -region,

$n$  = working age population of Yugoslavia.

<sup>8</sup> In public discussions (even in some 'scholarly' papers) in the former Yugoslavia it was common to evaluate the increase or decrease of regional disparities in the period after World War II (or some shorter part of that period), i.e. on the successfulness or unsuccessfulness of regional policy, based only on data on the range of national product *per capita* between the most developed (Slovenia) and the most underdeveloped area (Kosovo and Metohia). There was a double reductionism at work: 1. only one indicator was taken into account (shown in the second column in the left table below), and not the other indicators relevant for the measurement of total economic development; and only two - extreme - units of observation were taken. Undoubtedly, it is better to use the coefficient of correlation as a measure of total variations of (all) republics and



Graph 4. a) and b) c) and d) and f)

provinces per individual indicators of development (table on the right below) instead of the range. This is also not enough, which is why the measuring of regional disparities in this paper was carried out in the manner described in the part that follows.

In case of the indicator *capital assets per working age inhabitant*:

$y_i$  = capital assets per working age inhabitant in  $i$ -region,

$\bar{y}$  = capital assets per working age inhabitant of Yugoslavia,

$f_i$  = working age population of  $i$ -region,

$n$  = working age population of Yugoslavia; while in case of the indicator

*national product per capita*:

$y_i$  = national product *per capita* of  $i$ -region,

$\bar{y}$  = national product *per capita* of Yugoslavia,

$f_i$  = population of  $i$ -region,

$n$  = population of Yugoslavia.

It can be noted from these formulas that  $V_1$  and  $V_2$  are the measures of relative regional differences, while  $M$  is the measure of absolute regional differences.  $V_1$  represents a weighted measure of regional differences, since the square deviations of the region indicator value and the indicator value at the level of Yugoslavia are weighted by the participation of the working age population, i.e. the entire population within the appropriate aggregate at the level of Yugoslavia. The measure of absolute differences ( $M$ ) is also calculated as a weighted value, whereas the weights are equal to the weights used in the  $V_1$  calculation.

In order to determine general formulas of the trend of regional differences in the observed period (1952–1988), each series of acquired values is regressed to time, i.e. the trend functions are evaluated.

For each of the regional differences value series three main functional relations with time as an independent variable are specified and evaluated: linear, log-linear and semi-logarithmic. The sign and value of the evaluated value of the  $\beta$  parameter show the direction and intensity of changes of the regional differences value in time. The types of specified functions, where the dependent variable (regional differences value) is marked with the letter  $Z$ , are:

(1) Linear trend:

$$Z = \alpha + \beta T, \quad dZ/dT = \beta$$

$\beta > 0$  – regional differences increase by the constant  $\beta$  coefficient;

$\beta < 0$  – regional differences decrease by the constant  $\beta$  coefficient.

(2) Log-linear trend:

$$Z = \alpha T^\beta, \quad dZ/dT = \alpha\beta T^{\beta-1}$$

$\beta > 1$  – regional differences increase rapidly;

$0 < \beta < 1$  – regional differences increase slowly;

$\beta < 0$  – regional differences decrease slowly.

Computing this function with logarithms results in an equation suitable for evaluation by the method of common least squares (CLS):

$$\ln Z = \ln \alpha + \beta \ln T.$$

(3) Semi-logarithmic trend:

a)  $Z = e^{\alpha + \beta T}$      $\ln Z = \alpha + \beta T$

$\beta > 0$  – regional differences increase exponent rapidly;

$\beta < 0$  – regional differences decrease exponent slowly.

Computing this function with logarithms results in the formula for evaluation:

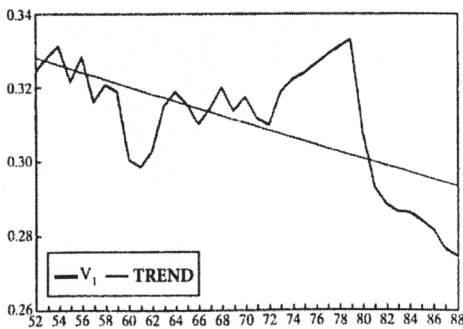
$\ln Z = \alpha + \beta T$     b)  $Z\alpha + \beta \ln T$      $dZ/dT = \beta/T$

$\beta > 0$  – differences increase slowly;

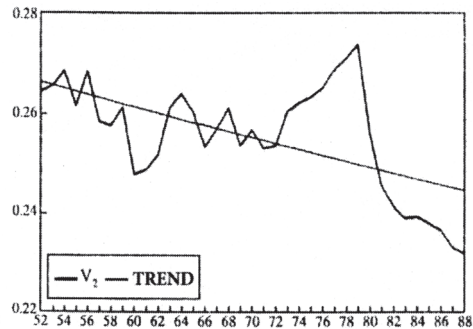
$\beta < 0$  – differences decrease slowly.

In other words, if the trend of regional differences over time is best described by the function of the semi-logarithmic trend, in which the dependent variable is computed with a logarithm, and if the sign of the evaluated value of the  $\beta$  parameter is negative, it means that the differences between regions decrease, but slowly ( $\beta$  is a constant,  $T$  increases, which means that  $\beta/T$  value gets smaller with  $T$  growth).

The choice of function for every series of dependent variable values is carried out based on criteria of statistical importance of the evaluated  $\beta$  parameter and the statistical importance of the evaluated function measured by the determination coefficient.



Graph 5. Employment:  
relative regional differences ( $V_1$ )



Graph 6. Employment:  
relative regional differences ( $V_2$ )

Table 3. EMPLOYMENT: RELATIVE REGIONAL DIFFERENCES

	$V_1$	$OV_1$	$V_2$	$OV_2$
1952	0.324	0.328	0.265	0.266
1953	0.328	0.327	0.266	0.266
1954	0.331	0.326	0.269	0.265
1955	0.322	0.325	0.262	0.265
1956	0.328	0.324	0.269	0.264
1957	0.316	0.323	0.259	0.263
1958	0.321	0.322	0.258	0.263
1959	0.319	0.321	0.261	0.262
1960	0.300	0.320	0.248	0.261
1961	0.298	0.319	0.249	0.261
1962	0.303	0.318	0.252	0.260
1963	0.315	0.317	0.261	0.259
1964	0.319	0.316	0.264	0.259
1965	0.315	0.315	0.260	0.258
1966	0.310	0.314	0.253	0.258
1967	0.314	0.313	0.257	0.257
1968	0.320	0.312	0.261	0.256
1969	0.313	0.311	0.253	0.256
1970	0.317	0.310	0.257	0.255
1971	0.311	0.309	0.253	0.254
1972	0.309	0.308	0.253	0.254
1973	0.318	0.307	0.260	0.253
1974	0.322	0.306	0.262	0.253
1975	0.324	0.305	0.263	0.252
1976	0.326	0.304	0.265	0.251
1977	0.328	0.303	0.268	0.251
1978	0.331	0.302	0.271	0.250
1979	0.333	0.301	0.274	0.250
1980	0.307	0.300	0.256	0.249
1981	0.293	0.299	0.245	0.248
1982	0.288	0.299	0.241	0.248
1983	0.286	0.298	0.239	0.247
1984	0.286	0.297	0.239	0.247
1985	0.284	0.296	0.238	0.246
1986	0.281	0.295	0.236	0.245
1987	0.276	0.294	0.233	0.245
1988	0.274	0.293	0.231	0.244



RELATIVE REGIONAL DIFFERENCES<sup>9</sup>

Based on the trend of regional differences in employment per 1000 working age population expressed by the  $V_1$  measure (*Graph 5*), several various sub-periods may be noticed. From 1952 to 1961, regional differences in employment varied, with a tendency of decreasing. From 1961 to 1964, they increased continuously, and from 1964 to 1972, they varied again without any expressed tendency of either growth or fall. From 1972 to 1979, there is again a constant growth of regional differences, and from 1979 to the end of the observed period in 1988, they fell from year to year.

Table 4. CAPITAL ASSETS: RELATIVE REGIONAL DIFFERENCES

	$V_1$	$O_1V_1$	$O_2V_1$	$V_2$	$O_1V_2$	$O_2V_2$
1952	0.559	0.586	0.642	0.433	0.450	0.469
1953	0.563	0.554	0.587	0.441	0.432	0.459
1954	0.590	0.535	0.555	0.467	0.421	0.449
1955	0.593	0.522	0.532	0.468	0.413	0.439
1956	0.592	0.511	0.514	0.464	0.408	0.429
1957	0.553	0.503	0.500	0.437	0.403	0.419
1958	0.513	0.496	0.488	0.406	0.399	0.409
1959	0.489	0.490	0.477	0.394	0.395	0.399
1960	0.469	0.484	0.468	0.386	0.392	0.389
1961	0.434	0.479	0.460	0.363	0.389	0.379
1962	0.417	0.475	0.452	0.345	0.387	0.369
1963	0.428	0.471	0.445	0.352	0.385	0.359
1964	0.426	0.467	0.439	0.347	0.383	0.349
1965	0.411	0.464	0.433	0.337	0.381	0.339
1966	0.414	0.460	0.428	0.337	0.379	0.329
1967	0.401	0.457	0.422	0.330	0.377	0.319
1968	0.408	0.455	0.418	0.339	0.376	0.334

9 As of 1945, the regional differences in Yugoslav theory and practice were interpreted as relative differences. Thus Kosta Mihailović (Циљеви и политика развоја недовољно развијених подручја и САП Косово, in: *Политика и систем подстицања бржег развоја привредно недовољно развијених република и аутономних покрајина*, Економски институт + Институт економских наука, Београд, 22. август 1978, p. 14) thinks that the permanent main regional political goal is “uniformity as a narrowing of relative differences.” This paper considers absolute differences as well.

	$V_1$	$O_1V_1$	$O_2V_1$	$V_2$	$O_1V_2$	$O_2V_2$
1969	0.412	0.452	0.413	0.341	0.374	0.338
1970	0.410	0.449	0.409	0.342	0.373	0.341
1971	0.404	0.447	0.405	0.338	0.371	0.344
1972	0.414	0.445	0.416	0.346	0.370	0.348
1973	0.416	0.443	0.420	0.349	0.369	0.351
1974	0.422	0.440	0.424	0.352	0.368	0.355
1975	0.430	0.438	0.427	0.359	0.367	0.358
1976	0.437	0.437	0.431	0.364	0.365	0.361
1977	0.442	0.435	0.435	0.364	0.364	0.365
1978	0.452	0.433	0.438	0.372	0.363	0.368
1979	0.449	0.431	0.442	0.374	0.362	0.372
1980	0.434	0.430	0.446	0.367	0.362	0.375
1981	0.443	0.428	0.450	0.376	0.361	0.378
1982	0.449	0.427	0.453	0.379	0.360	0.382
1983	0.463	0.425	0.457	0.389	0.359	0.385
1984	0.464	0.424	0.461	0.393	0.358	0.389
1985	0.466	0.422	0.464	0.395	0.357	0.392
1986	0.464	0.421	0.468	0.394	0.357	0.395
1987	0.468	0.420	0.472	0.398	0.356	0.399
1988	0.473	0.418	0.475	0.403	0.355	0.402

This nine-year continuous fall of regional differences was mostly determined by the falling trend for the whole period. The evaluated semi-logarithmic function of the trend is

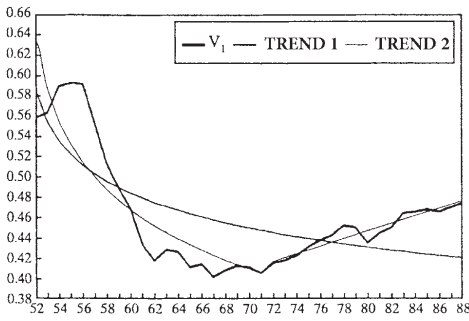
$$\ln V_1 = -1.1107 - 0.0032 T \quad R^2 = 0.3860$$

$$(-75.4736) (-4.6912) \quad \bar{R}^2 = 0.3685$$

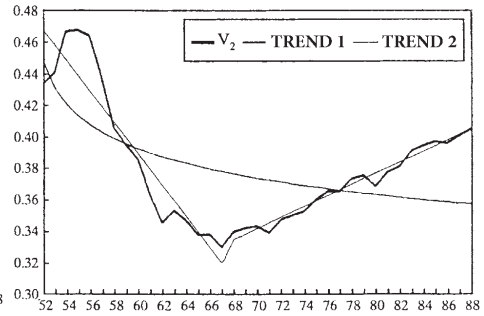
Considering the type of trend function, it can be stated that the relative regional differences in employment per 1000 working age population during the entire observed period (1952–1988) decreased rapidly.

Table 5. SOCIAL PRODUCT: RELATIVE REGIONAL DIFFERENCES

	$V_1$	$OV_1$	$V_2$	$OV_2$
1952	0.453	0.415	0.355	0.327
1953	0.397	0.417	0.311	0.329
1954	0.429	0.419	0.341	0.331
1955	0.427	0.421	0.341	0.334
1956	0.432	0.423	0.346	0.336
1957	0.411	0.425	0.322	0.339
1958	0.457	0.427	0.361	0.341
1959	0.427	0.429	0.332	0.344
1960	0.461	0.431	0.360	0.346
1961	0.452	0.433	0.365	0.349
1962	0.450	0.435	0.364	0.351
1963	0.439	0.437	0.357	0.354
1964	0.427	0.439	0.349	0.356
1965	0.409	0.441	0.336	0.359
1966	0.397	0.443	0.325	0.361
1967	0.404	0.445	0.337	0.364
1968	0.427	0.447	0.356	0.366
1969	0.434	0.450	0.361	0.369
1970	0.455	0.452	0.381	0.372
1971	0.455	0.454	0.380	0.374
1972	0.461	0.456	0.383	0.377
1973	0.463	0.458	0.386	0.380
1974	0.456	0.460	0.380	0.383
1975	0.484	0.463	0.402	0.385
1976	0.484	0.465	0.404	0.388
1977	0.474	0.467	0.399	0.391
1978	0.487	0.469	0.408	0.394
1979	0.493	0.471	0.411	0.397
1980	0.459	0.474	0.392	0.399
1981	0.439	0.476	0.377	0.402
1982	0.422	0.478	0.357	0.405
1983	0.421	0.480	0.357	0.408
1984	0.443	0.483	0.376	0.411
1985	0.484	0.485	0.412	0.414
1986	0.509	0.487	0.427	0.417
1987	0.575	0.490	0.483	0.420
1988	0.581	0.492	0.493	0.423



Graph 7. Capital Assets:  
Relative Regional Differences ( $V_1$ )



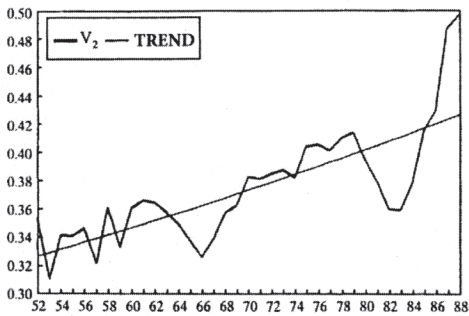
Graph 8. Capital Assets:  
Relative Regional Differences ( $V_2$ )

A similar trend of relative regional differences is obtained based on  $V_2$  indicators (Graph 6). According to this indicator also, there is a significant drop of relative regional differences during the entire period. The evaluated trend function is:

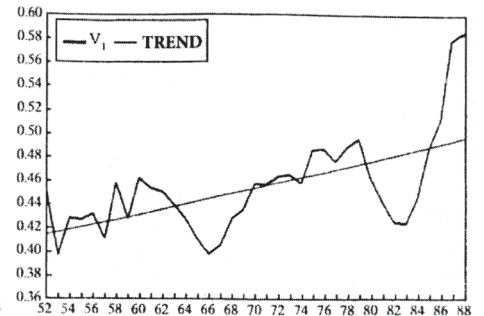
$$\ln V_2 = -1.3201 - 0.0024 T \quad R^2 = 0.3463$$

$$(-107.5077) (-4.3058) \quad \bar{R}^2 = 0.3276$$

The type of trend function shows that relative regional differences are decreasing rapidly. The evaluated  $\beta$  coefficient value in that function, however, is lower than in the case of the  $V_1$  indicator, which is the logical result when it is known that the  $V_1$  indicator is calculated by weighing the aberration square.



Graph 9. Social Product:  
Relative Regional Differences ( $V_1$ )



Graph 10. Social Product:  
Relative Regional Differences ( $V_2$ )

In the trend of relative regional differences considering capital assets per working age inhabitant, measured per both indicators ( $V_1$  and  $V_2$ ), two sub-periods are clearly noticed (*Graphs 7 and 8*).

In case of the  $V_1$  indicator in the first sub-period, from 1952 to 1971, relative regional differences decrease, and in the other sub-period, from 1971 to 1988, they increase. The trend of relative regional differences in the first sub-period is best described by the function of the semi-logarithmic trend:

$$V_1 = 0.6418 - 0.0791 \ln T \quad R^2 = 0.7545$$

$$(26.7013) (-7.4379) \quad \bar{R}^2 = 0.7409$$

which means that they decrease at a falling rate. In the second sub-period, their trend is best described by the linear trend function:

$$V_1 = 0.3388 + 0.0037 T \quad R^2 = 0.9050$$

$$(39.1039) (12.3443) \quad \bar{R}^2 = 0.8990$$

which means that in that sub-period relative regional differences increase at a constant  $\beta$  rate. According to the  $V_2$  indicator, however, already in 1967 there was a complete change of trends of relative regional differences pertaining to capital assets per working age inhabitant. Until that year they were falling, and after that year they were rising.

The trend of relative regional differences in the first sub-period (1952–1967) is best described by a linear trend function:

$$V_2 = 0.4790 - 0.0100 T \rightarrow \quad R^2 = 0.8622$$

$$(46.4257) (-4.2503) \quad \bar{R}^2 = 0.8523$$

which suggests that they decrease at a constant  $\beta$  rate.

The linear trend is characteristic for the trend of regional differences in the second sub-period (1967–1988) also, but the value of the evaluated  $\beta$  parameter is positive:

$$V_2 = 0.2761 + 0.0034 T \quad R^2 = 0.9764$$

$$(85.6092) (28.7995) \quad \bar{R}^2 = 0.9753$$

which means that the differences increase at a constant coefficient.

However, when the period is observed as a whole according to both indicators ( $V_1$  and  $V_2$ ), a falling tendency of relative regional differences in the value of capital assets per working age inhabitant prevails. In both cases their trend is best described by the function of the semi-logarithmic trend, which suggests that the fall of regional differences becomes slower over time. The evaluated trend functions are:

$$V_1 = 0.5863 - 0.0465 \ln T \quad R^2 = 0.5014$$

$$(26.5392) (-5.9328) \quad \bar{R}^2 = 0.4872$$

and

$$V_2 = 0.4497 - 0.0262 \ln T \quad R^2 = 0.3404$$

$$(25.9149) (-4.2503) \quad \bar{R}^2 = 0.3216$$

The trend of relative regional differences in social product *per capita* shows the undoubted rising trend of the differences, measured according to both the  $V_1$  and  $V_2$  indicators (*Graphs 9 and 10*). In both cases their trend is best described by a semi-logarithmic trend function in which the dependent variable is computed with a logarithm. This means that relative regional differences in national product *per capita* increased at a rising rate. The evaluated trend functions are:

$$\ln V_1 = -0.8848 + 0.0047 T \quad R^2 = 0.3615$$

$$(-38.1002) (4.4517) \quad \bar{R}^2 = 0.3433$$

and

$$\ln V_2 = -1.1260 + 0.0072 T \quad R^2 = 0.6003$$

$$(-52.1261) (7.2510) \quad \bar{R}^2 = 0.5889$$

### ABSOLUTE REGIONAL DIFFERENCES

Four sub-periods with various tendencies follow each other in the trend of absolute regional differences in the employment per 1000 working age population (*Graph 11*). During the sub-period from 1952 to 1964, absolute region-

al differences increase, from 1964 to 1971 they decrease, and from 1971 to 1979 they increase again. Finally, during the sub-period from 1979 to 1988, they decrease from year to year.

When the entire period is observed (1952–1988), the tendency of fall of absolute regional differences according to this indicator is clearly noticed. This is confirmed also by the evaluated function of semilogarithmic trend:

$$\ln M = -1.5910 - 0.0042 T \quad R^2 = 0.5845$$

$$(-120.8410) (-7.0168) \quad \bar{R}^2 = 0.5726;$$

according to which the absolute regional differences in employment per 1000 working age population decrease at an increasing rate.

The trend of absolute regional differences in the *value of capital assets per working age inhabitant* (Graph 12), however, does not have a common tendency during the entire observed period (1952–1988). This is confirmed also by the insignificant evaluated value of the parameter with complete time in all evaluated functions of the trend for the entire period.

Four sub-periods follow each other in the trend of the differences. The first one, from 1952 to 1954, in which the differences increased per constant coefficient:

$$M = 0.2671 + 0.0207 T \quad R^2 = 0.9989$$

$$(178.9876) (29.9712) \quad \bar{R}^2 = 0.9770;$$

The second, from 1954 to 1964, in which the differences decreased at constant coefficient:

$$M = 0.3666 - 0.0101 T \quad R^2 = 0.9360$$

$$(49.3612) (-10.1160) \quad \bar{R}^2 = 0.9268;$$

The third one, from 1962 to 1974, during which absolute differences among regions increased:

$$M = 0.2446 + 0.0005 T \quad R^2 = 0.3815$$

$$(66.8693) (2.6046) \quad \bar{R}^2 = 0.3252;$$

And the fourth one, from 1974 to 1988, during which absolute regional differences in capital assets per working age inhabitant also increased, but faster than in the previous sub-period.

As for the national product *per capita*, the main tendency in the trend of regional differences (*Graph 13*) according to this absolute indicator is the same as in the case of the  $V_1$  and  $V_2$  indicators. Namely, absolute regional differences showed a tendency of growth during the entire period (1952–1988). Judging by the functional form of the trend that best describes the trend of these differences

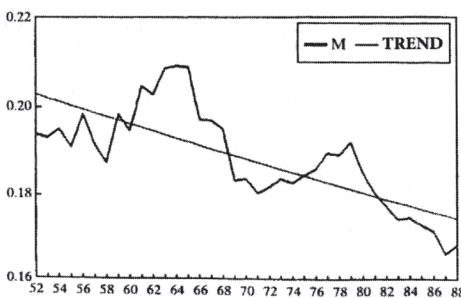
$$\ln M = -1.4268 + 0.0087 T$$

$$(-78.2746) (10.4242)$$

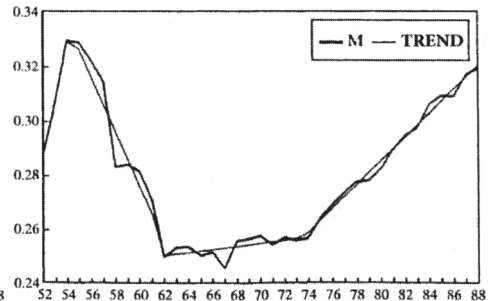
$$R^2 = 0.7564$$

$$\bar{R}^2 = 0.7494 \text{ they grew rapidly.}$$

The results of the analysis show that the relative and absolute regional differences in the observed period decrease in the case of employment and capital assets. Lowering of risk in the case of employment is accelerated, while in case of capital assets it is slow. If only the last decade is observed, both absolute and relative differences in capital assets among regions increase. As for the national product, both relative and absolute regional differences increase rapidly in the course of the entire observed period.



*Graph 11.* Employment:  
Absolute Regional Differences



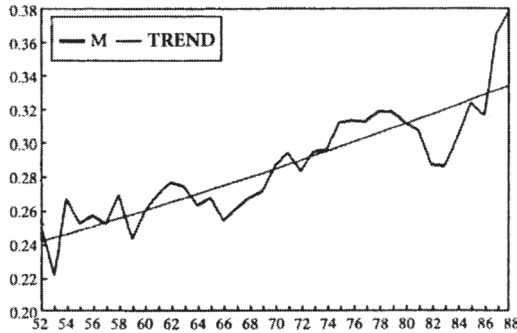
*Graph 12.* Capital Assets:  
Absolute Regional Differences



Table 6. EMPLOYMENT, CAPITAL ASSETS AND NATIONAL PRODUCT:  
ABSOLUTE REGIONAL DIFFERENCES

	MZAP	OMZAP	MOSR	OMOSR	MDP	OMDP
1952	19.4	20.3	28.8	28.8	25.2	24.2
1953	19.3	20.2	30.8	30.9	22.2	24.4
1954	19.5	20.1	33.0	32.9	26.7	24.6
1955	19.1	20.0	32.9	32.6	25.3	24.9
1956	19.8	19.9	32.2	31.6	25.7	25.1
1957	19.1	19.9	31.5	30.6	25.2	25.3
1958	18.8	19.8	28.3	29.6	26.9	25.5
1959	19.8	19.7	28.4	28.6	24.3	25.7
1960	19.5	19.6	28.1	27.6	25.9	26.0
1961	20.4	19.5	27.1	26.6	26.9	26.2
1962	20.3	19.4	25.0	25.1	27.6	26.4
1963	20.8	19.4	25.4	25.1	27.3	26.7
1964	20.9	19.3	25.4	25.2	26.2	26.9
1965	20.9	19.2	25.0	25.2	26.7	27.1
1966	19.7	19.1	25.2	25.3	25.3	27.4
1967	19.7	19.0	24.6	25.3	26.1	27.6
1968	19.5	19.0	25.6	25.4	26.7	27.8
1969	18.3	18.9	25.7	25.4	27.0	28.1
1970	18.3	18.8	25.8	25.5	28.5	28.3
1971	18.0	18.7	25.4	25.6	29.3	28.6
1972	18.2	18.6	25.7	25.6	28.2	28.8
1973	18.3	18.6	25.6	25.7	29.3	29.1
1974	18.2	18.5	25.7	25.9	29.5	29.3
1975	18.4	18.4	26.4	26.3	31.0	29.6
1976	18.6	18.3	26.9	26.7	31.2	29.9
1977	18.9	18.2	27.3	27.2	31.1	30.1
1978	18.9	18.2	27.8	27.6	31.7	30.4
1979	19.2	18.1	27.8	28.1	31.6	30.6
1980	18.5	18.0	28.2	28.5	31.0	30.9
1981	18.0	17.9	28.9	28.9	30.5	31.2
1982	17.7	17.9	29.5	29.4	28.5	31.5
1983	17.4	17.8	29.7	29.8	28.4	31.7
1984	17.4	17.7	30.6	30.3	30.1	32.0
1985	17.3	17.6	30.9	30.7	32.1	32.3

	MZAP	OMZAP	MOSR	OMOSR	MDP	OMDP
1986	17.1	17.6	30.9	31.1	31.4	32.6
1987	16.6	17.5	31.7	31.6	36.2	32.9
1988	16.8	17.4	31.9	32.0	37.6	33.1



Graph 13. National Product: Absolute Regional Differences

### SOME INTERNATIONAL COMPARISONS

Williamson and other researchers (almost without exception) have used only one indicator in international comparisons of regional disparities. Using national product *per capita*, Williamson came to the conclusion that inter-regional differences are larger in underdeveloped countries. E. Egner [Egner 1970: 2670] and K. D. Klages [Klages 1975] also (who rely on Williamson) conclude that the image of expressed disparities appears in underdeveloped countries. On average, they are much larger than in developed industrial countries (there are some exceptions, such as India, for instance)<sup>10</sup>.

10 See also the papers on regional disparities within certain countries or within a comparative context, such as, for instance: K. L. Gupta, Development Patterns: An Interregional Study, *The Quarterly Journal of Economics*, vol. 85, 4, November 1971, pp. 644–666; T. A. Reiner, Welfare Differences Within a Nation, *The RSA Papers*, vol. 32, 1974, pp. 71–82; J. B. Parr, Welfare Differences Within a Nation. A Comment, *The RSA Papers*, vol. 32, 1974, pp. 8391; W. Molle, T. M. Smit, B. van Holst, *Regional Disparities and Economic Development in the E.E.C.*, Saxon House, London, 1979; R. J. Fuchs, G. J. Demko, Geographic Inequality Under Socialism, *Annals of the Association of American Geographers*, vol. 69, 2, June 1979, pp. 304–318; M. L. Kiljunen, Regional Disparities and Policy in the E.E.C., in: *Integration and Unequal Development: the Experience of the E.E.C.*, D. Seers – C. Vaitos, eds., Macmillan, London 1980; C. Hallet, Economic Convergence and Divergence in the European Community: A Survey of the Evidence, in: *Economic Divergence in the European Commu-*

Table 7. WILLIAMSON: THE RESULTS OF AN INTERNATIONAL CROSS-SECTION ANALYSIS OF REGIONAL DISPARITIES

Country and group according to Kuznets	Years included	Number of regions	Dispersion measures	Order				
					$V_1$	$V_2$	M	$V_1$
Group I								
Australia	1945/50–1959/60	6	0.058	0.078	4.77	1	1	1
New Zealand	1955	10	0.063	0.082	4.93	2	2	2
Canada	1950–61	11	0.192	0.259	17.30	6	12	8
Great Britain	1959/60	15	0.141	0.156	11.39	4	4	3
USA	1950–61	9	0.182	0.189	16.56	5	6	6
Sweden	1950 1955 1961	24	0.200	0.168	15.52	7	5	5
Group II								
Finland	1950 1954 1958	23	0.331	0.276	26.64	17	14	18
France	1954 1955/6 1958	21	0.283	0.215	20.80	13	9	12
FR Germany	1950–55 1960	9	0.205	0.205	16.98	8	8	7
Holland	1950 1955 1958	11	0.131	0.128	12.45	3	3	4
Norway	1952 1957–60	20	0.309	0.253	23.84	15	11	13
Group III								
Ireland	1960	26	0.268	0.271	24.20	11	13	14
Chile	1958	9	0.327	0.440	30.65	16	19	19
Austria	1957	9	0.225	0.201	18.69	9	7	9
Puerto Rico	1960	76	0.520	0.378	42.31	21	18	22

nity, M. Hodges – W. Wallace, eds., Allen & Unwin, London, 1981; Paul Philips, *Regional Disparities*, James Lorimer, Toronto, 1982; Ch. Harvie, *The Rise of Regional Europe*, Routledge, London, 1994; *Convergence Issues in the European Union*, ed. W. Meeusen, et al., Edward Elgar, London 2002.

Country and group according to Kuznets	Years included	Number of regions	Dispersion measures	Order				
			$V_1$	$V_2$	$M$	$V_1$	$V_2$	$M$
<b>Group IV</b>								
Brazil	1950–59	21	0.700	0.654	53.78	24	24	24
Italy	1951 1955 1960	19	0.360	0.367	30.94	19	17	20
Spain	1955 1957	50	0.415	0.356	32.32	20	16	21
Columbia	1953	16	0.541	0.561	46.70	22	21	23
Greece	1954	11	0.302	0.295	26.56	14	15	17
<b>Group V</b>								
<i>Yugoslavia</i> 1956 1959 1960	6	0.340	0.444	24.54	18	20	15	
Japan	1951–9	46	0.244	0.222	19.88	10	10	11
<b>Group VI</b>								
Philippines	1956	10	0.556	0.627	29.59	23	23	15
<b>Group VII</b>								
<i>India</i> 1950/51 1955/56	18	0.275	0.580	19.39	12	22	10	

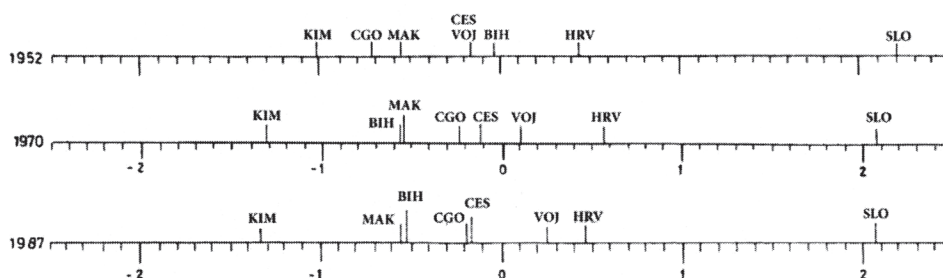
As it can be seen in *Table 7*, Yugoslavia (together with Japan!) is in Group IV of Kuznets's classification of countries [Kuznets 1975] according to the state of development and in the average three stated years (1956, 1959 and 1960), it more or less fits into the described "universal" pattern of regional disparities. It should not be forgotten, however, that this is a *cross-section* analysis. Our analysis offers more detailed information, not only because it includes a period of almost four decades but because it measures regional disparities by means of two additional indicators. As for relative ( $V_1$  and  $V_2$ ) and absolute ( $M$ ) regional differences, the Yugoslav condition in each of the observed years (from 1952 to 1988, see *Tables 5* and *6*), per characteristic sub-periods, and for the entire period, can be compared with seven groups of countries (according to Kuznets's classification) and with the average of all groups (*Table 8*). The data refer to the sixth decade of the 20<sup>th</sup> century.

It would be interesting, and not only in order to check theses on the usefulness of methodical pluralism, to compare the results obtained with the

results of factor analysis applied on the same units of observation. For illustration, we have given here only a segment (three chosen years - 1952, 1970 and 1987), which shows how distant in economic development Yugoslav regions were based on the three mentioned indicators (employment, capital assets and national product) taken together (*Graph 14*)<sup>11</sup>.

Table 8. THE DEGREE OF DEVELOPMENT AND REGIONAL DISPARITIES

	Average national product <i>per capita</i>	Dispersion measures		
		$V_1$	$V_2$	M
Group I	1700\$	0.139	0.155	11.72
Group II	1000\$	0.252	0.215	20.14
Group III	650\$	0.335	0.323	28.96
Group IV	400\$	0.464	0.447	38.06
Group V	270\$	0.292	0.333	22.26
Group VI	200\$	0.556	0.627	29.59
Group VII	100\$	0.275	0.580	19.39
All groups		0.299	0.309	23.78



Graph 14. Classification of Regions According to Degree of Economic Development in 1952, 1970 and 1987

11 For more details see: [Оцић 1998: 103–166].

## CONCLUSIONS

Differently from Williamson, who uses only national product *per capita* for the purpose of international comparison of regional disparities, this paper, in addition to this indicator, also uses employment per 1000 working age population and capital assets per working age inhabitant:  $V_1$  and  $V_2$  are the measures of relative regional differences, while  $M$  is the measure of absolute regional differences.  $V_1$  at that represents a weighted measure of regional differences, since the deviation squares of the value of indicators of regions and values of indicators at the level of Yugoslavia are weighted by the participation of the working age population, i.e. total population within the appropriate aggregate at the level of Yugoslavia. The measure of absolute differences is calculated as a weighted value, whereas the weights are equal to weights used for  $V_1$  calculation. In order to determine the general pattern of the trend of regional differences in the observed period (1952–1988), each series of obtained values is regressed to time, i.e. the trend functions are evaluated. For each series of values of regional differences three main functional relations with time as an independent variable are specified and evaluated: linear, log-linear and semi-logarithmic. The choice of trend function for each series of values of dependent variable is based on criteria of statistical significance of the evaluated  $\beta$  parameter and statistical significance of the evaluated function measured by the determination coefficient.

1. Based on the trend of regional differences in employment per 1000 working age population expressed by the  $V_1$  measure, we can note several different sub-periods. From 1952 to 1961, regional differences in employment oscillated with a diminishing tendency. From 1961 to 1964, they increased continuously, and from 1964 to 1972 they oscillated again, but without any expressed tendency of either growing or falling. From 1972 to 1979, we observe again a constant growth of regional differences, and from 1979 to the end of the observed period they are falling year by year. This nine-year continuous fall of regional differences mostly determined the falling trend for the entire period. Considering the type of trend function (semi-logarithmic), it can be stated that relative regional differences in employment per 1000 working age population measured by the  $V_1$  indicator in the course of the entire observed period diminished rapidly. A similar trend of regional differences is obtained based on the  $V_2$  indicator. According to this indicator there is also a significant drop of relative regional differences in the course of the

entire observed period. The type of trend function shows also that relative regional differences fall rapidly. The evaluated value of the  $\beta$  coefficient in this function, however, is lower than in case of the  $V_1$  indicator, which is the logical result when we know that the  $V_1$  indicator is calculated by a weighted squared deviation.

Underdevelopment and a relatively ample supply of labor power made strong pressure on employment. The employment growth was often followed (because of growing expectations of the latently unemployed rural population) by a growing rate (of registered) of unemployment. Formal and informal channels (nepotism, corruption...) of providing jobs were constantly used in the observed period and in all “regions” (with the exception of Vojvodina during the sub-period from 1965 to 1970) the number of the employed persons increased. The high correlation of non-productive employment and degree of development suggests that a considerable number of the employed was not in the production function. The politico-ideological concept of creating a blue-collar class (*via* industrialization and urbanization) as the social foundations of the new ruling power structure influenced undoubtedly the intensity and the sector and regional dynamics of employment in the social sector. Under the general conditions of *soft budget constraints, the social function of employment had priority over economic efficiency*. The changes of regional disparities in employment should be observed from this perspective.

2. As for the trend of relative regional differences in the value of capital assets per working age inhabitant, measured according to both indicators ( $V_1$  and  $V_2$ ), two clear sub-periods can be noticed. In case of the  $V_1$  indicator during the first sub-period, from 1952 to 1971, relative differences decrease, and in the second period, from 1971 to 1988, they increase. During the first subperiod the trend of relative regional differences is best described by the semi-logarithmic trend function, which means that they decrease at a falling rate. During the second sub-period, their trend is best described by the linear trend function, which means that the relative regional differences in this period are increasing at a constant  $\beta$  rate. According to the  $V_2$  indicator, however, already in 1967 there was a change of trend tendency of relative regional differences regarding capital assets per a working age inhabitant. Until that year, they were falling, and after that year they were rising. The trend of relative regional differences in the course of the first sub-period (1952–1967) is best described by the linear trend function, which suggests that they decrease at a constant  $\beta$  rate. The linear trend is characteristic for

the trend of regional differences during the second sub-period (1967–1988) also, but the value of the evaluated  $\beta$  parameter is positive, which means that differences increase at a constant coefficient. When the period is observed as a whole according to both indicators ( $V_1$  and  $V_2$ ), the tendency of fall of relative regional differences in capital assets per working age inhabitant prevails. In both cases their trend is best described by the semi-logarithmic trend function, which shows that the fall of regional differences becomes slower over time. Similarly as in case of employment, the results obtained by the analysis of regional disparities of capital assets must be interpreted starting from economic assumptions, but taking into account the social and political context. From the economic point of view, the change of values of capital assets is equivalent to gross investments in the given periods. More intensive investment activities can mark an economy as successful, providing that the investments are also efficient. The problem in Yugoslavia in fact was the efficiency of capital assets. The Yugoslav economy, first, had all the characteristics of a relatively underdeveloped economy (for instance relative abundance of work and relative lack of capital) and, second, it was socialist: intentionally, work is the pivot of socialism, as capital is the pivot of capitalism. In the Yugoslav case the price of capital was lower than the one suggested by its relative availability, which under the conditions of soft budget constraints leads necessarily to inefficient investments. This is why more investments did not mean a more successful economy. This refers to less developed regions particularly. Therefore:

1. The trend of relative regional differences of national product *per capita* shows an undoubted tendency of growth of these differences, measured by both the  $V_1$  and  $V_2$  indicators. In both cases their trend is best described by the semi-logarithmic trend function in which a dependent variable is computed with a logarithm. This means that relative regional differences in national product *per capita* increased at an increasing rate.

2. In the trend of absolute regional differences of employment per 1000 working age population, four sub-periods with various tendencies follow each other. During the sub-period from 1952 to 1964, absolute regional differences increased; from 1964 to 1971 they decreased, while from 1971 to 1979 they increased again. Finally, during the sub-period from 1979 to 1988, they decreased from year by year. When the entire period is observed, the falling tendency of absolute regional differences according to this indicator can clearly be noticed. This is confirmed also by the evaluated semi-loga-



rithmic trend function, according to which absolute regional differences in employment per 1000 working age population decrease at an increasing rate.

3. The trend of absolute regional differences in terms of capital assets per working age inhabitant, however, does not have a common tendency in the course of the entire observed period. This is confirmed also by the insignificant evaluated value of parameters with time in all evaluated trend functions for the entire period. Four sub-periods follow each other in the trend of these differences. The first sub-period, from 1952 to 1962, in which the differences grew at a constant coefficient; second, from 1954 to 1962, in which the differences decreased at a constant coefficient; third, from 1962 to 1974, in which absolute differences among regions increased, and the fourth, from 1974 to 1988, in which absolute regional differences in capital assets per working age inhabitant also increased, but faster than in the previous sub-period.

4. As for the national product *per capita*, the main tendency in the trend of regional differences according to this absolute indicator is the same as in case of the  $V_1$  and  $V_2$  indicators. Namely, absolute regional differences increase in the course of the entire period. Judging by the functional form of the trend that best describes the trend of these differences, they increased rapidly.

5. The results of the analysis show that both relative and absolute regional differences in the course of the observed period decrease in the case of employment and in the case of capital assets. The diminishing of differences in the case of employment is accelerated, while in the case of capital assets it is slower. In the last decade of the observed period (1978–1988), however, both absolute and relative differences among regions in capital assets increase. As for the national product, both relative and absolute differences in the course of the entire observed period increased rapidly.

The results of the quantitative analysis of regional disparities show autonomous trends on the former Yugoslav regional scene, but considering that the system was then declared to be egalitarian, they illustrate well the accomplishment of the goal of interregional equality, i.e. they are an accurate indicator of the (un)successfulness of regional policy in FPRY/SFRY<sup>12</sup>.

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12 DFY – Democratic Federal Yugoslavia: 1945–1953; FPRY – Federal Peoples' Republic of Yugoslavia: 1953–1963; SFRY – Socialist Federal Republic of Yugoslavia: 1963–1990.

## CONVERGENCE OR DIVERGENCE? REGIONS IN FORMER YUGOSLAVIA 1952–1988

### Summary

Do regions converge or diverge in the process of their development? What happened in the socialist Yugoslavia to that effect? This article first considers general questions of regional disparities within the context of contemporary and often contradictory theoretical ideas. The second part describes the specific characteristics of the regional scene of socialist Yugoslavia. This is followed by a review of analysis methods that quantify regional disparities (measured by three indicators: employment, capital assets, social product) in the Federal People's Republic of Yugoslavia / Socialist Federal Republic of Yugoslavia in the period from 1952 to 1988. Then the article presents the results of measuring relative and absolute differences among Yugoslav "regions". These results are then compared with the results of other research in order to consider the Yugoslav regional problem within the international and historical perspective.

### Key Words

regional disparities, Yugoslavia, Yugoslav "regions".

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HETERONOMIE DER ZWECKE:  
NATIONAL QUESTION, FEDERALISM  
AND REGIONAL DISPARITIES,  
YUGOSLAVIA 1945–1990





*Between the idea  
And the reality  
Between the motion  
And the act  
Falls the shadow.*  
T. S. Eliot

*The suggestion is made that political and social consideration,  
both domestic and international, became  
more important than economic logic.*  
[Sugar 1963]\*

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\* “The situation is unique as a test case for theories of area-development because the operation had a definite beginning, ran its forty-year course, and came to a definite end. The author examines measures the occupying country took to improve living standards of the province, shows while these failed, and suggests why the rulers did not use alternate plans which might have led to success. The suggestion is made that *political and social consideration, both domestic and international, became more important than economic logic.*” [Peter F. Sugar. *Industrialization of Bosnia-Hercegovina, 1878–1918*, University of Washington, Seattle 1963]



## PROPORTIONS OF THE REGIONAL PROBLEM IN YUGOSLAVIA

*The regional problem* in the second<sup>1</sup> Yugoslavia (1945–1990) was never a question of economic disparities only: it was interrelated with the *national question* and the question of the organization of the *state*. It also reflected various *historical* influences and the resultant mixture of different *cultural patterns*.

In Yugoslavia, official definition of the magnitude of the regional problem resulted from the interaction of the regional power configuration, economic interests, political will and the ruling ideological postulates. Thus the status of underdevelopment and the volume of transfers were determined by (unlimited) aspirations, on the one hand, and (limited) possibilities, on the other.

“Official” proportions of the regional problem in Yugoslavia (in terms of the underdevelopment *status* given to some republics and provinces) did not reflect the real situation since the boundaries of underdevelopment did not coincide with the boundaries of the republics and the provinces. Nevertheless, Yugoslav regional policy stubbornly persisted with the simplified *dichotomy* of economically developed and underdeveloped republics and provinces (which was never based on the real situation). The consequence was that the share of the Yugoslav population living in the regions which almost throughout the post-WWII period were classified as underdeveloped (Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo and Metohia) grew from 30.57% in 1948 to 33.84% in 1965, and to 40.23% in 1990.

Judging from these facts only, Yugoslav regional policy – which disregarding the interdependent development of all regions (particularly after 1965) was confined to one specific aspect of regional development, to the development of less developed regions – was unsuccessful because it did not help decrease the number of people living in conditions of underdevelopment but rather led to its increase. The point is that regions of underdevelopment had been rigidly and

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<sup>1</sup> “First Yugoslavia” refers to Yugoslavia “between the wars,” 1918–1941.

roughly defined: regional policy clashed with the real proportions of the regional problem, which is clearly shown by the data in *Table 1* on the population dynamics in such imprecisely defined underdeveloped regions. A more realistic approach with municipalities as units of observation shows that development was spatially dispersed, namely that in reality there were no large compact underdeveloped regions, quite contrary to the basic premise of the official regional policy.

*Table 1.* THE EXTENT OF THE REGIONAL PROBLEM: THE PARTICIPATION OF UNDERDEVELOPED AREAS IN THE RESPECTIVE AGGREGATES OF YUGOSLAVIA

Years	1947/1952	1965	1988
<i>Features</i>			
Surface area	(34.5%) 39.7%	39.7%	39.7%
Population	(26.0%) 30.6%*	33.8%	38.5%
Employment	(22.4%) 24.2%**	24.6%	29.3%
Fixed assets	(18.1%) 19.8%**	25.3%	27.1%
Gross national product	(21.1%) 23.4%***	22.0%	22.6%

\*1948, \*\*1952, \*\*\*1947.

The percentages in parentheses refer to Bosnia and Herzegovina, Macedonia and Montenegro, which according to the first five-year plan (1947–1951) had the status of underdeveloped. Percentages outside the brackets, in addition to these three units, also include Kosovo and Metohia



*Figure 1.* Underdeveloped Areas in Yugoslavia, 1947–1957



Figure 2. Underdeveloped Areas in Yugoslavia, 1957–1961



Figure 3. Underdeveloped Areas in Yugoslavia, 1961–1965

Occasional attempts, from 1945 to 1974, at regionalizing Yugoslavia in order to promote both its global and regional development did not bear fruit. With the exception of the 1961–1965 period, republics and provinces or, to be precise, the underdeveloped republics and provinces, were the focus of attention at the Yugoslav level. (See figures 1 to 4).



Figure 4. Underdeveloped Areas in Yugoslavia, 1965–1990

Yugoslav regional policy was basically characterized by a *twofold reductionism*: (a) by its primary (and since 1965 exclusive) focus on republics and provinces (as Yugoslav “regions”), and (b) by its orientation towards less developed Yugoslav regions.

The institutional framework for the resolution of the regional problem underwent some changes: two basic stages of regional development may be distinguished – up to 1965 and after 1965. A third stage, deeply rooted in the past, can also be identified but it became manifest only after the last year (1990) of the research period covered by our study. At that stage the survival of Yugoslavia was placed at the top of the agenda.

The concepts of Yugoslavia’s development after World War II were strongly inspired by ideology. For the concepts of regional development, the most important were the implications of the principle of *egalitarianism*, with its policy manifestations in the form of redistributive measures. However, in practice, the real power of regions played a greater role in the implementation of regional policy objectives than the ideologically founded pronouncements suggested. For, not only thus “ideology has the power to transform social reality only between certain limits and... when we ignore those limits we produce *the contrary of what was desired*” [Dumont 1994], but it was also used to justify the *regional interests* that hid behind it.

Interest-based regional configurations under a highly formalized decision-making procedure (such as *consensus*, for example) inevitably resulted

in the perpetuation of decisions and the compounding of existing problems, particularly if the initial outcome of interest coordination and harmonization was based on a bad political compromise. The over-politicization of regional questions prevented the resolution of the actual problems of Yugoslavia's regional development. Not only did it maintain the status quo in interregional relations but it also contributed to the rigidification of regional policy (by rendering its instruments anachronistic and inefficient) and to its reductionist interpretation as a policy of one region.

Table 2. YUGOSLAVIA, REPUBLICS AND PROVINCES: SOME BASIC FEATURES  
shares in %

	Area	Agricultural area	Population	Assets, social sector, 1972 prices	Employment, social and private sector, annual average	GDP, social and private sector, 1972 prices
		1988.	1988.	1988.	1988.	1988.
<b>Yugoslavia</b>	100.0	100.0	100.0	100.0	100.0	100.0
Bosna-Hercegovina	20.0	17.7	18.9	15.3	15.7	12.8
Montenegro	5.4	3.6	2.7	3.2	2.4	2.0
Croatia	22.1	24.2	19.9	25.8	23.6	25.4
Macedonia	10.1	9.1	8.9	5.8	7.7	5.6
Slovenia	7.9	6.9	8.2	16.9	12.5	16.7
Serbia	34.5	38.5	41.5	33.0	38.0	37.5
Central Serbia	21.9	21.8	24.8	20.6	25.3	25.0
Kosovo-Metohia	4.2	3.6	8.0	2.8	3.5	2.2
Vojvodina	8.4	13.1	8.7	9.6	9.3	10.4

The multi-ethnic composition of the country, the federal state system and considerable differences in the degree and structure of economic development both between and within regions made equality the fundamental strategic goal of Yugoslavia's regional development during the whole period after 1945. Equal regional development was considered not only as conducive,

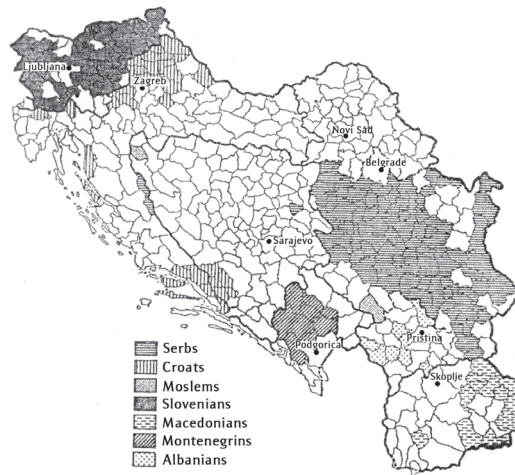


Figure 5. Monoethnic Municipalities in Yugoslavia in 1981  
(90% + municipality inhabitants belonging to one nationality/ethnic group)

in the long run, to the optimum development of the entire Yugoslav economy but also as an essential condition for the achievement of social equality (“providing working people and citizens with equal opportunities for work and living”) and national equality.

Yugoslavia in the period 1945–1990 has seen a considerable change in views about the basic determinants of the strategic goals of regional development: amended or redefined by new constitutions, (cooperative) federalism was combined with elements of (conflict-causing) confederalism, national equality was gradually identified with the equality of republics and provinces. There were also major shifts in the emphases of the components of general development (social → national, economic → political, etc.), while in the economic sphere both the concept of development and the institutional framework (centrally planned economy, market-planned economy, self-management agreement economy etc.) underwent fundamental changes. All this, in addition to other factors (e.g. those of a strategic nature – “strategic territories” (see [Vukmanović Tempo 1971]) as “priority regions”), resulted in the fact that the basic goal of regional development was in certain phases realized in different ways, i.e. in a different (social, political, economic, etc.) environment.

In economic terms, until 1965 the basic objective of the policy of regional development – the rapid development of all accompanied by a faster development of underdeveloped regions – had been pursued within a mainly



sectorally defined global optimum, where the development objectives of a region were set according to the development objectives of the country as a whole. After 1965, this *territorially coordinated goal system was gradually replaced by a territorially uncoordinated goal system*. The latter allowed republics – as sovereign agents in the Yugoslav economic environment – to pursue separate development objectives which may have (but most often have not) corresponded to the images of the global objective.

#### LEVEL OF DEVELOPMENT OF THE YUGOSLAV REPUBLICS AND PROVINCES: CLASSIFICATION OF REGIONS

Starting from a fundamental concept according to which development is a multi-dimensional phenomenon, our analysis of regional development levels, i.e. regional differences, was initially based on a wide range of indicators. In the final stages of research, a smaller number of indicators of overall regional development levels was chosen. Among these are the following: (1) original value of fixed assets in the social sector per working-age inhabitant; (2) share of workers in working-age population – (1) and (2) representing “productive forces”; and (3) gross national product – GNP *per capita* representing the effects of “productive forces”.

The relative values of the indicators of economic development levels of Yugoslav republics and provinces show that the differences between the most developed region and the least developed region are the largest with the indicator that represents the effects of “productive forces” (*per capita* gross national product – GNP), and narrowest with the indicator of the employment level (number of workers in the social sector per 1,000 working-age inhabitants: EMP). The range of development levels of the material element of the “productive forces” (fixed assets per working-age inhabitant: CAP) are closer to the range within the first indicator (GNP) than within the second one (EMP). In addition to regional policy reasons, these trends can also be explained by important theoretical and methodological reasons: the so-called *per capita* indicators (such as the above CAP and GNP) have been observed to vary more than the structural indicators (here: EMP). In fact, this is a case of two different “qualities of time” in which *per capita* and structural changes are taking place. Therefore, these two types of indicators are useless unless they are somehow standardized. Here standardization has been done as a

prerequisite for the *factor and cluster analyses*. Individual features (indicators) were replaced by a summary representation of three characteristics of the economic development level of republics and provinces. Republics and provinces were grouped based on their relationship to the level of economic development expressed in this summary way. The relationship is measured by the distance between the points which represent such objects (and their groups or clusters) in a multidimensional space.

Regions were clustered together according to the degree of similarity: those grouped first were the regions least distant from one another regardless of their economic development levels. The results of the factor analysis clearly show both the level of development and the classifying patterns of regions, on the basis of the value of the points scored by regions on the main factors. The main factors (taken together) explain the largest part of the variance, but not the entire variance (in this case only a negligible percentage remained unexplained). Cluster analysis encompassed and synthesized all the information contained in the indicators. Thus the two methods are supplementary and also mutually verifiable. Both can be used for the *classification* of regions.

Matrices of initial distances reveal that the largest difference in economic development levels was that between Slovenia and Croatia in all the observed years. In fact, this difference divides all the observed regions into two groups. One group consists of Slovenia only, while the second group includes all the other republics and provinces. At first sight the latter seems highly heterogeneous: however, for most years, the distance between Croatia (the most developed region in the group) and Kosovo and Metohia (the least developed region in the group) was narrower than between Croatia and Slovenia. This *dichotomy does not reflect the true complexity of the Yugoslav situation in terms of regions*. The results of the factor analysis (crosschecked by cluster analysis) give a precise picture of the actual regional differences over the 1950–1987 period: in 1950, 1952, 1955 and 1960 Yugoslav regions fall into five groups, differently composed in each year. For all other years (except 1970), the republics and provinces form *four groups*, following the same pattern of grouping (again except 1970) with changes occurring only in the positions of the members of the third group, i.e. central Serbia (Serbia minus the autonomous provinces of Vojvodina and Kosovo and Metohia), Montenegro, Bosnia and Herzegovina and Macedonia. In general, the position of certain regions on the (under)development scale is quite stable: for instance, Slovenia, Croatia and Kosovo and Metohia retained the same position throughout the observed period. The least stable was Bosnia

and Herzegovina, which changed its position six times over thirty-seven years, and even changed its development classification group four times.

Figure 6. Changes in Classification of Republics and Provinces according to the Level of Economic Development, 1950–1987

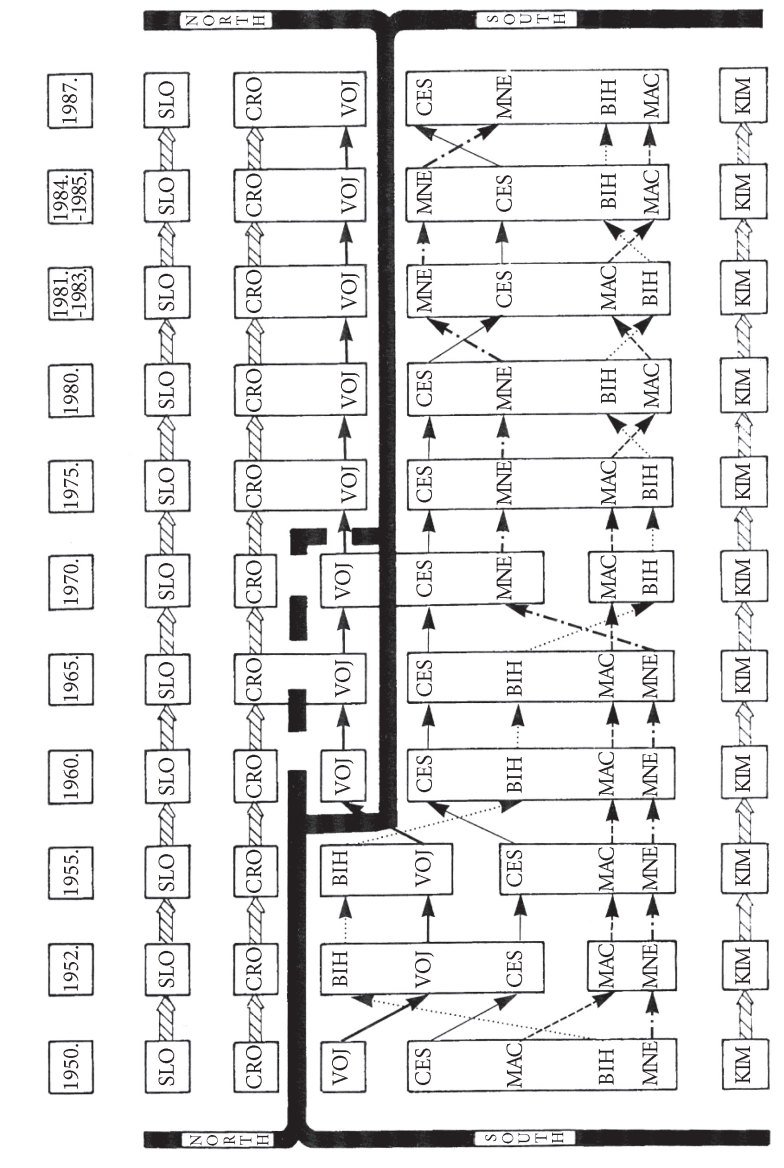


Table 3. CHANGES IN THE LEVEL OF ECONOMIC DEVELOPMENT;  
FOUR GROUP OF REGIONS, 1950–1987

GROUP OF REGIONS					
	I THE MOST DEVELOPED	II DEVELOPED	YUGOSLAVIA	III UNDERDEVE- LOPED	IV THE LEAST DEVELOPED
1965.	147.80	115.84	100.00	85.45	45.48
1970.	182.59	110.93	100.00	82.82	44.24
1975.	190.35	114.31	100.00	82.76	46.04
1980.	182.85	117.49	100.00	84.08	41.85
1981.	181.25	118.15	100.00	84.20	44.81
1982.	177.41	118.60	100.00	84.82	42.88
1983.	177.30	118.03	100.00	85.73	43.32
1984.	186.26	118.22	100.00	86.27	41.34
1985.	192.82	116.66	100.00	84.76	42.61
1986.	201.84	114.84	100.00	84.52	41.46
1987.	203.49	117.08	100.00	82.36	39.15

The stable configuration of republics and provinces according to their levels of economic development over the last twenty-five years of existence of the former Yugoslavia suggests a need to define four distinct groups of regions. The name of the group should specify *the most important typical features (typology)* of republics and provinces included. Since many of these features are structural and since only the level of economic development is discussed here, the following names were chosen: *the most developed, developed, underdeveloped and the least developed groups*. During the 1965–1990 period the four groups of regions included the following republics and provinces: (1) the most developed regions: Slovenia; (2) developed regions: Croatia and Vojvodina; (3) underdeveloped regions: central Serbia, Montenegro, Bosnia and Herzegovina, Macedonia; and (4) the least developed regions: Kosovo and Metohia.

## STRUCTURE OF DEVELOPMENT OF THE YUGOSLAV REPUBLICS AND PROVINCES: AN ATTEMPT AT MAKING A TYPOLOGY OF REGIONS

Relatively minor differences in the *sectoral structure* of regional economies, i.e. the small influence of these structural differences on the differences in regional efficiency can be explained by an ambition of macroeconomic decision-makers of almost all regions to obtain, if at all possible, everything that Yugoslavia already possessed so that “one day” *regions could function as sovereign independent states*. Moreover, the completion of regional economic structures was carried out according to the overall Yugoslav model of *socialist industrialization*. The desire to achieve *self-sufficiency*, in the absence of either strong economic incentives or coercion which could induce radical structural changes, led, among other things, to the self-reproduction of the “original” economic structure of regions (“a little bit more of the same”). According to the law of inertia, in an environment dominated by semi-natural, technological and “agreement-based” (arbitrary) investment criteria, with a lack of innovation and a strong aversion to risk, necessary structural adjustments fail to occur. Where there are *no structural changes*, there are *no qualitative changes* either. The absence of dynamism in institutional arrangements affected the structure of regional economies: a rigid system resulted in a rigid structure which, in turn, had a minimal effect on efficiency.

A comparison between the results obtained by ranking regions according to their efficiency and those obtained by ranking regions according to the achieved growth of production factors (employment and fixed assets) and GNP growth clearly indicates that there was rapid growth of production factors in underdeveloped regions. This growth was made possible by an *abundant inflow of capital*. However, the way in which capital flowed into the regions (automatically and without any control by the donors over its use or investments efficiency) and the environment in which it was used (*soft budget constraint*, socialization of investment risks, zero or minimum price of capital, institutional and non-institutional pressure from the unemployed population, etc.) inevitably led to non-productive employment, i.e. inefficient investment. In other words, *rapid growth of production factors in year t did not provide the basis for self-increase in year t+1 but, instead, created a need for increased external capital in year t+1 in order, first, to preserve the existing (inefficient) economy and, second, to ensure new (inefficient) growth.*

Inter-regional economic relations include the flow of traditional production factors (labor and capital), the flow of information, technology, goods and services, money flow, organizational linkage, as well as special forms of business cooperation. The volume and structure of inter-regional relations depended on: (a) the size of regions or their respective economic power; (b) the level of economic development of regions; (c) the proximity (or distance) of regions, and (d) the structure of regional economies. Since in Yugoslavia the exchange of commodities and services was the most prominent feature of inter-regional relations, by observing it we can get reliable data on changes in the interdependence of republics and provinces.

An increasing autarky of regions was the fundamental trend in inter-regional trade. In general, the most closed were the most developed and/or the largest regions. The process of closing was the most rapid in the least developed and smallest regions (with the exception of Macedonia), although they were unable to catch up with the developed regions since, initially, they had been very open in relative terms. Developed regions (Slovenia, Croatia and Vojvodina) were more open in deliveries than in purchases. Trade within this group, including central Serbia, was more intensive. Less developed regions generally traded more with developed regions, although in the observed period links between underdeveloped regions grew somewhat stronger (with the exception of Kosovo and Metohia) despite the general pattern of increasing closure.

The relatively high volume of trade among neighboring regions confirms the hypothesis that *proximity* is an important determinant of the intensity of inter-regional trade. However, relations between bordering regions displayed a tendency to decline, while relations between distant regions grew relatively stronger. The best examples are the relations between Slovenia and Kosovo and Metohia, and between Montenegro and Vojvodina.

The more developed regions (Slovenia, Croatia and Vojvodina) had a positive total trade balance. On the other hand, the total trade balance of less developed regions (Bosnia and Herzegovina, Montenegro, Macedonia and Kosovo and Metohia) was negative. Central Serbia also had a negative total balance of trade. Thus, there is a noticeable regularity in terms of a correlation between the degree of a region's economic development and the number of positive (or negative) balances in transactions with other regions. Vojvodina's specific structure of production made it an active region in terms of trade with other regions almost without exception. Thus, the strongest influ-

ence on the volume and the balance of trade between regions was exerted by their levels of economic development.

With only a quick glance at regional indicator values of those (economic and noneconomic) aspects of development that were not covered by quantitative analysis, we can notice that, depending on the point in time we choose for our assessment, the data can be either the determinants or the consequences of growth. All indicators of demographic development display changes in accordance with the standard conception of modernization. Thus, for example, an increased number of households is accompanied by a decline in the number of household members. This rule applies to all regions except Kosovo and Metohia, where a rising number of household members occurred. Life expectancy for both males and females improved in all regions without exception. Some of these indicators, however, in terms of the magnitude of their change, also reveal a strong influence of the concept of socialist industrialization. A sharp decline in the percentage of agricultural population, from a factor greater than five (in Montenegro) to a factor greater than two and a half (in central Serbia), is unparalleled in the world. One of its consequences was that the percentage of the urban population more than doubled in all regions.

An increase in the relative significance of GNP and the value of industrial fixed assets also speaks about the results of the development concept, which was understood to be industrialization. Thus, for example, in Montenegro, the share of the manufacturing industry in GNP in 1987 was more than seven times larger than in 1947, whereas on the Yugoslav level this share was more than twice as large as in 1947. The share of industrial fixed assets also rose considerably. Macedonia achieved the biggest increase in industrial fixed assets, of some 70%. The ideological impact of this concept of development was reflected in the change of GNP's property structure. The share of the private sector in GNP at the Yugoslav level fell 2.3 times from 1952 to 1990. The steepest decline occurred in Slovenia and central Serbia. In Slovenia, the private sector's share in GNP fell 2.7 times, while in central Serbia it fell 2.6 times. An increased share of exports in GNP shows that the economy was opening up, while an increase in the relative importance of imports of raw materials and intermediate goods speaks of the increased import-dependence of the economy.

The change in the *social development indicators* also reflects an important egalitarian component of the development concept thanks to which spe-

cial importance was attached to the social “superstructure.” Thus, in 1988 the number of medical doctors per 10,000 inhabitants of Yugoslavia was almost six times greater than in 1952, with the highest increase occurring in Macedonia and Kosovo and Metohia. In Macedonia, the number of doctors per 10,000 inhabitants increased by a factor of ten and by a factor of nine in Kosovo and Metohia. There was also a great rise in the number of junior college and university students. The sharpest increase was recorded in Kosovo and Metohia with zero students per 1,000 persons in the 1947/48 school year, and as many as 19 students per 1,000 inhabitants (Yugoslav average 14.4) in 1988/89, which represents the highest value of this indicator in comparison to other regions. In the observed period, central Serbia had the smallest, 2.5-fold increase in the number of students per 1,000 persons. The living standard indicators rose sharply as well. The proportion of households with a TV set was 47 times higher in 1981 than in 1961, and the proportion of households with a passenger car was almost 26 times higher. The rise of these indicators was again the sharpest in underdeveloped regions, particularly in Kosovo and Metohia.

Underdeveloped regions invested enormous effort and resources into schools, hospitals, dwellings, the mass media and the like in order to become “modern.” However, they were more concerned with quantity (indicators) than with quality. The expansion of social institutions involved a direct copying of the developed regions’ behavioral patterns and systems of values (“demonstration effect”), which caused the “revolution of rising expectations,” soon to be replaced, however, by the “revolution of rising disappointment and frustration.” But the social dimension was not instrumental in bringing about the expected dynamics of the economic side of development. New rules of the game were equally visible in consumption: here as well, modernization fostered new needs and aspirations. Moreover, suddenly increased appetites for the consumption of “modern” goods and services created a profound dissatisfaction with traditional living conditions, especially in rural areas. The outcome is known: the *mass exodus to industrial centers in urban areas*. A workforce shortage in the agricultural sector was accompanied by huge urban unemployment. This imbalance had far-reaching consequences: a growing pauperization of the people who remained in rural areas and of those who were caught in the trap of chronic urban unemployment. Development through modernization (i.e. industrialization) resulted in income differences between individuals and social groups, as well as between urban and rural areas. Under the circumstances – contrary to all expecta-



tions – *economic and social dualism* increased. Both types of dualism conspicuously manifested themselves in rising unemployment.

The ratio of investment to GNP is taken as an aggregate (and simplified) representation of regional development costs. Over the 1952–1990 period, the share of investment in GNP (the investment rate) varied considerably both by sub-period and by region, ranging from 86.2% in Montenegro in the 1952–1960 sub-period to 17.4% in Vojvodina in the 1983–1990 sub-period. The investment rate by year ranged from 117.0% in Montenegro in 1954 to 16.6% in Vojvodina in 1990.

For the whole period, the average rate of investment in Yugoslavia amounted to 20.4%. In other words, an average one fifth of GNP was spent on investment throughout the period. Above-average investment rates were achieved in Bosnia and Herzegovina, Montenegro, central Serbia and Kosovo and Metohia. The highest was the 29.7% investment rate of Kosovo and Metohia, and the lowest was the 18.0% investment rate of Vojvodina. The average investment rate was calculated cumulatively on the basis of GNP and investment in current prices. Although theoretically this is the best method of calculating average investment rates, in the case of Yugoslavia it considerably distorts the picture of the actual situation. The reason for this are extremely high inflation rates in the last decade of the observed period, which resulted in disproportionately greater weights being assigned to GNP in these years than in the previous ones. On the other hand, the last years were also characterized by a sharp decline in investment. Given all this, the average investment rate was low relative to the rates achieved before 1979.

In some regions the investment rate exceeded the upper limit that determines the so-called *absorptive capacity of the economy*. The maximum absorptive capacity is 40% of the investment in GNP. Particularly characteristic here are the cases of Montenegro and Kosovo and Metohia. The rate of investment for Montenegro exceeded the upper limit in all sub-periods, except the last one, while that of Kosovo and Metohia fell below the limit only in the first and the last sub-periods. In two years (1953 and 1954), investment in Montenegro even exceeded GNP, while in 30 out of 37 years, more than 40% of GNP was spent on investment. The investment rate was above 40% in Kosovo and Metohia in 26 years, in Macedonia in 12 years, and in Bosnia and Herzegovina in 10 years. In central Serbia investment exceeded this limit in one year (1961). In other regions (Croatia, Slovenia and Vojvodina) in no year did the investment rate exceed 40% of GNP.

The investment rate figures and trends by region clearly show the method by which regional policy was to achieve the declared objective: a rapid development of “the material base for productive forces” of all regions, along with a faster development of “the material base for productive forces” of underdeveloped regions. Because of the inefficiency of investments, the investment boom under “soft budget constraints” (and universal voluntarism), which peaked in the late 1970s, resulted first in the collapse of the economy, and then of the state.

Undoubtedly, this process was also made possible by the mechanisms of inter-regional distribution and the *redistribution of income*. Their effects are aggregately shown and dimensioned relative to the key economic aggregate – GNP. In this way, in addition to the structure, the total scope of inter-regional financial relations was also identified. Both in real and in nominal terms, only Kosovo and Metohia and Montenegro had a favorable balance. Other units (including the federation) showed a deficit. A deficit also occurred in the sum of payments and receipts prescribed by federal regulations. This widespread deficit financing, however, did not place all the republics and provinces in the same relative position. Some of the absolute losers turned out to be relative winners. These include Bosnia and Herzegovina (whose receipts stipulated by federal regulations, in relative terms, were one and a half times higher than payments) and Macedonia. The biggest absolute and relative losers were central Serbia and Vojvodina, followed by Croatia and Slovenia.

*Total payments prescribed by federal regulations* compared to GNP show (with the exception of Kosovo and Metohia and Slovenia) a relative regional uniformity – *from an average of 10% at the beginning to 9% at the end of the observed period*. On the other hand, total receipts prescribed by federal regulations relative to GNP vary, from between 1% and 2% in Vojvodina, to between 39.47% and 47.84% in Kosovo and Metohia. This reveals a considerable inter-regional redistributive effect. It is manifested either as a positive or negative balance of a republic or province and is then calculated as a percentage of GNP. Kosovo and Metohia had the largest inflow of federal prescribed funds, while Slovenia and central Serbia had the largest relative outflow. The country’s total deficit, as that of most republics and provinces, tended to decline slightly up to 1987, but in 1988 it was again on the increase.

By using constant prices, the payments and receipts of republics and provinces under federal regulations have been aggregated for the 1981–1988 period. Over these eight years the largest outflow in absolute terms occurred

in central Serbia (211811 million dinars in 1980 prices), while the largest inflow was that into Kosovo and Metohia (112501 million dinars). If we compare regional shares in payments and receipts of federal prescribed funds, Kosovo and Metohia is the biggest relative winner as well – its receipts are 12.14 times higher than its payments. Vojvodina is the biggest relative loser – its receipts account for only 37% of its payments.

Since this highly complicated and more importantly, conflict-causing process of “robbing-Peter-to-pay-Paul” produced *more losers than winners*, the final effect of this confused mixture of relationships is clear above all in comparison to the objectives that inspired their establishment.

### CHANGING CONCEPTS OF YUGOSLAV REGIONAL DEVELOPMENT

At regional levels, this implied a change in the concept of Yugoslav regional development. Until 1965 there had been several attempts to formulate Yugoslav regional policy. From 1965 Yugoslav regional development was seen almost exclusively as “the development of republics and provinces.” Besides, at the federal level only less developed republics and provinces were the focus of attention. Somewhat later (after 1970, when more attention was being paid to territorial evenness within federal units) the same principle was applied at the intraregional level (as a rule, only underdeveloped municipalities /“communes”/ were given aid). Since policy was not conducted at the societal level, strictly speaking there was no socialist model of inter-regional equality. In Eastern European countries and the USSR, *all regions* were covered by regional policy. On the contrary, in the developed countries of the West regional policy is focused on the so called “critical” (or “problem”) regions. Thus, regional policy is only “a corrective” – it is not comprehensive as is the case with collectivist societies.

In the case of Yugoslavia, in regard to the regional issue, the existing model was a *hybrid* rather than a strictly egalitarian one. In addition to the case mentioned, its hybrid character is explicit in another important segment of the policy of regional equality. The equality of chances and conditions at the regional level implied an equalization of the “productive forces” of unevenly developed regions, i.e. a transfer of capital to underdeveloped regions and above average growth of (productive) employment there; equal partici-

pation in results, however, implied a reduction of regional disparities in terms of *per capita* GNP. The latter, “eclectic” feature of regional policy combined a “civil” concept of equality (as equality of conditions) with a Stalinist “naturalist” concept of development as quantitative growth of all productive forces. In the USSR, at least conceptually (and in practice) the socialist concept of equality (as equal participation in results) was consistently pursued: people should have equal living standards in whatever region they lived. At the same time, productive forces could grow at different rates, which meant that, guided by economic logic, regions should make the best use of their comparative advantages and thus enable the optimum distribution of productive forces throughout the country.

The example of inconsistency in the conceptualization and the practice of Yugoslav regional development may also be illustrated by the application of double standards in regional policy. Whereas inter-regionally the egalitarian principle was pursued, with constant requests for resources to help redress regional disparities, within regions, contrary to proclamations, the more developed parts (municipalities) were given priority while the less developed were marginalized.

The principle of evenness at first operationalized as “a rapid development of all accompanied by a faster development of underdeveloped regions” subsequently implies quantification in the form of concrete (planned) targets. Since there was no institutional (above all, market) test of regional development efficiency and the underlying principle was the (“natural”) dialectic *that quantity (automatically) brings about quality, i.e. that growth generates development*, the choice of quantitative representation of regional development objectives was understandable. In principle, the stronger political pressure there was for quick, direct, and tangible results of development, the more marked were the preferences for quantitative representations of development objectives. An illustrative example is the way in which development objectives of less developed regions were formulated in medium-term federal plans: as a rule, the less developed a region was, the greater were its development aspirations. Under the circumstances, quantitative dimensions were the focus of attention because they were usually more visible. The more visible they were, the higher their significance as symbols of development. Yugoslav regional (and global) development is a striking example of *symbolic modernization*. The way in which objectives were formulated also shows that the policy of regional development was to a great extent symbolic instead of

leading to actual (qualitative) changes. First to be financed were “prestige projects” and an illusion of “exuberant” growth was created, while behind that façade, in the absence of effective control, there usually flourished *corruption* and various sorts of *theft*. Elements of parasitism grew stronger, the social climate was redistributive (the welfare effect of investment came first) rather than productive (the productivity effect was neglected). Under the banner of equality, pure and simple redistribution in favor of *parasitic social strata* took place, usually in the “gray zone,” outside public control, brokered by the *elite*.

#### EFFICIENCY OF REGIONAL DEVELOPMENT

*The efficiency of regional development, in the broadest sense, should be evaluated by the sum total of all the results and costs of a region's development.* Besides investments that were essential for the achievement of certain results, there were unnecessary costs as well. This wasteful spending, as a consequence of a negative politicization of regional development, particularly in underdeveloped regions, gave rise to *social parasitism* and led to *cultural disorientation in development* and eventually, since the process was a lasting one, to the so-called *parasitic involution*.

The political monopoly of the Yugoslav Communist Party was one of the three main factors which determined economic policy in general and regional policy in particular. The other two were the federal state structure, mostly rooted in ethnic differences, and economic planning (first of the command, and then indicative, pseudo-indicative i.e. self-management agreement type). The debate about party control was focused on the principles of the party's organization (especially the principle of democratic centralism) under the conditions of legislative decentralization of society. The federal state structure raised two questions: of the distribution of power among the federation and federal units and of the distribution of power between regional and local authorities and economic enterprises. On top of the traditional debate about the relative efficiency of centralized versus decentralized planning mechanisms, economic planning opened the issue of the development priorities of certain republics and of the level and the objectives of regional policy.

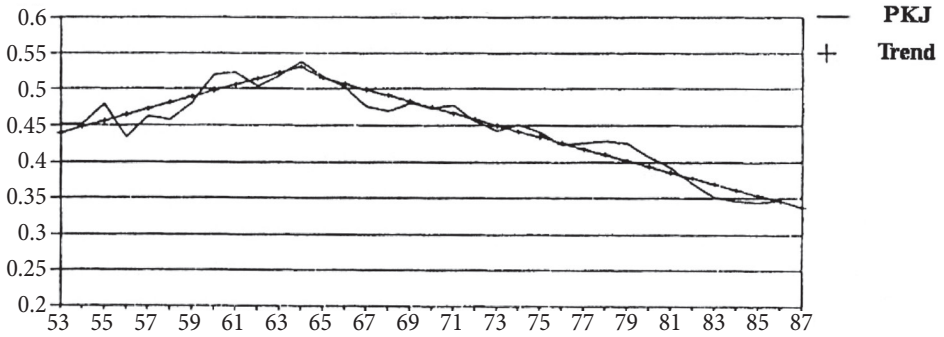


Figure 7. Yugoslavia: Average Output/capital Ratio (PKJ)  
("mysterious" 1965 turn)

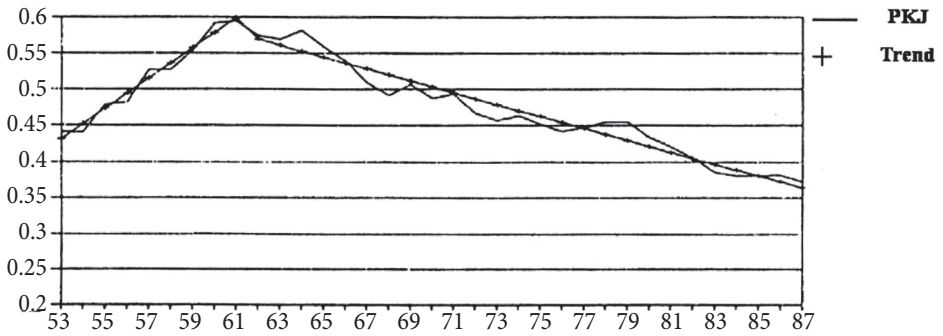


Figure 8. Serbia: Average Output/capital Ratio (PKJ)  
(mysterious 1965 turn)

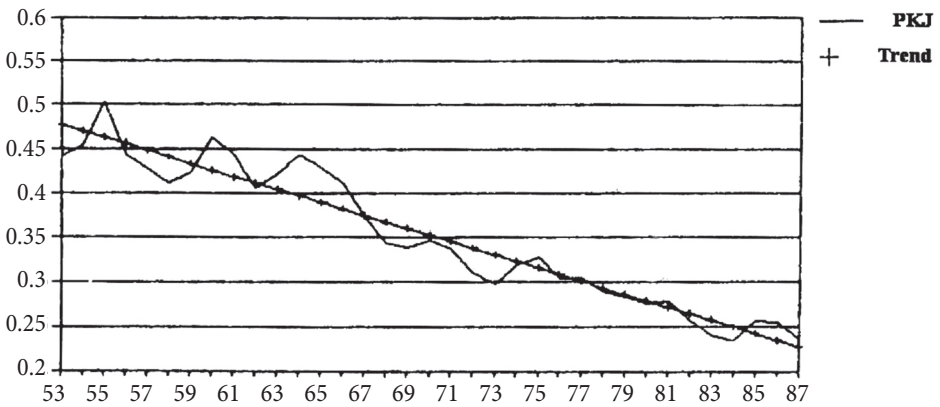


Figure 9. Kosovo and Metohia: Average Output/capital Ratio (PKJ)  
(investment "black whole"; investing in ethnicity)

The evolution of the postwar economic policy reflects the quest for a compromise between and within the following dimensions of the political structure: centralized political and economic power was constantly in conflict with the legislative decentralization, the decentralization of corporate governance (“self-management socialism” gave rise to political promotion of the “autonomy” of the workplace), as well as with the distributive and redistributive regional policies. As this conflict proved basically unproductive, the *compromise* that was reached may be considered a “bad compromise” in Eörsi’s terms [Ерши 1986].

After many unsuccessful attempts the Yugoslavia of the 1980s was presented with the dramatic question of whether to become “a serious and responsible society” with clearly defined rules of conduct. In other words, the problem of transition from a pre-political to an authentic (pluralistic) political condition presented itself. This also implied a transition from a pre-legal to a legal environment as well as from a pre-economic to an economic environment. The result was an open (previously latent) *general crisis*, whose integral part (or more precisely, mirror) was a *crisis of regional development*.

Does this mean that the fundamental, strategic objective of regional policy (an even regional development) was merely one of the (utopian) illusions of a revolutionary and ideologized society? The illusion was dispelled when the external sources of finance for the Yugoslav “experiment” dried up and the issue of post-revolutionary normalization was placed on the agenda. Indeed, two questions, stripped of their regional or rather regionalist cloak, in which they had frequently been wrapped throughout the postwar period, were brought out into the open:

(a) *What is a republic* – a region or a national state?

People living in a republic developed a consciousness about their territory as a political entity, since their region was either once an independent state or aspired to become one. Additionally, the republics had legal guarantees for this, especially under the 1974 Constitution. Moreover, the self-assertion of republics was reinforced by autarkic practices stemming from Stalinist and Kardeljist economic theories.

(b) What is Yugoslavia – a common and lasting framework for answering the “national questions” of Yugoslav nations or a provisional establishment, a waiting room in which everyone was hoping to grab an opportunity for their separate solutions or the achievement of “thousand-year-old dreams” of state sovereignty?

All this had already been strikingly evident (particularly since 1965) in the philosophy of regional development in the form of: (a) a refusal to accept the need for regional policy at the federal level; and (b) *double standards* – one regional logic was applied at the federal level, another at the republican. An illustrative example is the operationalization of equality as the principle that underlined the long-term, strategic goal of regional development. With reference to territory and space, this goal was defined as an *evenness* of regional development, while with reference to the citizen, social or ethnic group it was defined as *equality*. How was territorial, national, social, civil (or whatever) equality to be achieved through instruments and objectives of regional policy? With great difficulty, of course, particularly insofar as, *by an impossible simplification, the republic, nation and state were equated*. What were the chances of achieving national equality on the part of the members of the Yugoslav nations who lived outside the “mother” republic, especially when they were unable to act as subjects at the level of the collective?

## REGIONAL DISPARITIES

A good illustration of this are the results of a quantitative analysis of the extent to which the objective of inter-regional equality was achieved. Unlike Williamson [Williamson 1965], whose international comparison of regional disparities was made in terms of *per capita* GNP only, here we have included employment per 1,000 working-age inhabitants and fixed assets per working-age inhabitant – with  $V_1$  and  $V_2$  being measures of relative regional differences, and  $M$  a measure of absolute regional differences. Moreover,  $V_1$  is a weighted measure of regional differences, since squares of the deviations in regional indicator values and indicator values for Yugoslavia are weighted by the share of working-age population or total population in the corresponding aggregate at the Yugoslav level. The measure of absolute differences is also a weighted quantity, with the weights being the same as in the calculation of  $V_1$ . In order to determine the pattern of regional differences over the observed period (1952–1990) each series of obtained values was regressed with relation to time, i.e. the trend functions were estimated. For each series of values of regional differences, we specified and estimated three basic functional (co) - relations, with time as an independent variable: linear, log-linear and semi-logarithmic. The criterion by which a trend function for each series of values



of the dependent variable was chosen was the statistical significance of the estimated parameter  $\beta$  and the statistical significance of the estimated function measured by the coefficient of determination.

The trend of regional differences in employment per 1,000 working-age inhabitants in terms of the  $V_1$  measure shows several sub-periods. From 1952 to 1961 regional differences in employment fluctuated following a downward trend. From 1961 to 1964 they were on the increase, then from 1964 to 1972 they fluctuated again but followed no marked downward or upward trend. From 1972 to 1979 constant growth in regional differences was observed, and from 1979 to the end of the observed period (1990) they decreased each year. It is this continuous decline in regional differences over the last nine years that mostly determined the downward trend for the whole period. From the type of trend function (a semi-logarithmic one) it can be inferred that relative regional differences in employment per 1,000 working-age inhabitants measured by  $V_1$  rapidly decreased over the whole observed period (1952–1990).

A similar trend of relative regional differences was obtained for the  $V_2$  indicator. There is also a significant decrease in relative regional differences. Here again, the type of trend function shows an accelerated decline in relative regional differences. However, the estimated value of coefficient  $\beta$  in this function is smaller than in the case of the  $V_1$  indicator, as a logical result of the fact that the  $V_1$  indicator was calculated by weighting the squares of deviation.

The trend of relative regional differences in the value of fixed assets per working-age inhabitant measured by both indicators ( $V_1$  and  $V_2$ ) clearly shows two sub-periods. In terms of  $V_1$ , relative regional differences decreased over the first sub-period (1952–1971), but then increased over the second sub-period (1971–1988). The trend of relative regional differences over the first sub-period is best described by the semi-logarithmic trend function, which means that these decreased at a diminishing rate. The trend of regional differences over the second period is best described by a linear trend function, which means that differences increased at a constant rate  $\beta$ . In terms of  $V_2$ , however, as early as 1967 the trend of relative regional differences in the value of fixed assets reversed. They had decreased up to this year, and then started to increase. The trend of relative regional differences over the first sub-period (1952–1967) is best represented by a linear trend function, which suggests that differences decreased at a constant rate  $\beta$ . A linear trend is also characteristic of the regional differences over the second sub-period (1967–

1990), but the value of the estimated parameter  $\beta$  is positive, which means that differences widened by a constant coefficient. But when the whole period is considered in terms of both indicators ( $V_1$  and  $V_2$ ), the downward trend of relative regional differences per working-age inhabitant prevails. In both cases trends are best depicted by the semi-logarithmic trend function, which indicates that over time regional differences decreased at a diminishing rate.

Relative regional differences in GNP *per capita* clearly follow an upward trend, either measured by  $V_1$  or  $V_2$ . In both cases this trend is best described by the semi-logarithmic trend function with the logarithmically computed dependent variable. This means that relative regional differences in *per capita* GNP widened at an increasing rate.

In regard to absolute regional differences in employment per 1,000 working-age inhabitants, there are four sub-periods with different tendencies. During the 1952–1964 sub-period absolute differences increased, during the 1964–1971 period they decreased, then increased again in the 1971–1979 period. Finally, from 1979 to 1990 they diminished year by year. When the whole (1952–1990) period is considered, absolute differences in terms of this indicator clearly demonstrate a downward tendency. This is confirmed by the estimated function of the semi-logarithmic trend, according to which absolute regional differences in employment per 1,000 working-age inhabitants diminished at an increasing rate.

However, absolute regional differences in the value of fixed assets per working-age inhabitant display no common tendency for the observed period as a whole (1952–1990). This is confirmed by an insignificant value of a parameter estimated against time in all trend functions which were estimated for the entire period. There are four sub-periods. First, from 1952 to 1954, when differences grew at a constant coefficient; second, from 1954 to 1962, when differences declined at a constant coefficient; third, from 1962 to 1974, when the absolute differences between regions increased; and fourth, from 1974 to 1990, when absolute differences in the value of fixed assets per working-age inhabitant increased again, but faster than in the preceding sub-period.

In terms of *per capita* GNP as an absolute indicator, regional differences have the same trend as in the case of the  $V_1$  and  $V_2$  indicators. Absolute regional differences also display an upward tendency over the whole period (1952–1990). Judging by the form of the trend function that best describes the tendencies in these absolute differences, the latter rapidly increased.

Results of the analysis show that both relative and absolute regional differences in employment and fixed assets declined during the observed period. Moreover, the decline of differences in employment was steep, while in fixed assets it was gradual. In the last decade, however, both absolute and relative differences between regions in terms of fixed assets increased. In terms of GNP, both relative and absolute differences rapidly widened during the entire period observed.

In principle, the Yugoslav system belonged to an egalitarian model, because it “generalized equality in production relations into a global principle of societal organization.” In its initial stage, the state administrative concept of equality was dominant: economic equality was seen as an expansion of state property. The introduction of self-management, of “socialist commodity production” and the growing importance of the national state were accompanied by shifts in emphasis regarding the attainment of egalitarian objectives. In addition, there was a change in the level of operationalization of these objectives, i.e. in their implementation.

## INTER-REGIONAL REDISTRIBUTION

Mechanisms for transferring resources from developed to underdeveloped regions were also inconsistently conceived: the collection of transfer resources was centralized (through the Federal Fund), whereas the way in which these resources were used was decentralized (any control of their use was considered a violation of republican/provincial sovereignty!). This further reinforced the autarkic practice which was a logical consequence of the (Stalinist or Kardeljist) “metaeconomic” theory. Such a transfer mechanism, however, was the cause for *dissatisfaction on both sides*: among the donors as well as among the receivers of funds. The more developed regions objected to the high priority given to inter-regional redistribution, while the less developed regions defied the growing tendency towards the application of distributive criteria (particularly of profitability) in investment evaluation and fiercely opposed the very idea of control over the use of transferred resources.

The model of “pooling labor and resources” (directly and through the Federal Fund) is a good illustration of how the illusion of regional development problem solving was produced. First, the illusion was created that there was harmony at micro and macro levels, while any arising conflict was

suppressed by overregulation instead of being openly and clearly articulated and effectively resolved. Behind an apparent absence of conflicts, the inner conflict escalated to the extent that it had to be resolved in the Clausewitzian way – by *violence*. The violence, in turn, completely delegitimized the system and its *nomenklatura*.

## NATIONAL QUESTION

Thus, in the end, the much praised quality (a peculiarity bordering on unparalleled originality, unique authenticity) of Yugoslav regional and global development proved to be only a *fragile illusion* which was dispelled quickly but not painlessly. This was preceded by the activation of *built-in destabilizers* so that it could plausibly be argued that the *disintegration was a planned process*. Since its establishment, Yugoslavia was constantly plagued, either disguisedly or openly, by various national strategies for the break-up of the federal state: for some of its nations Yugoslavia was a final solution, whereas others considered it only a transitory framework, a waiting-room in which stalk their own, separate solutions. Therefore, the policy of regional development was to a great extent a policy of investing in ethnicity and state sovereignty, i.e. in national independence which was often (naively) believed to be attainable through economic independence. While opting for economic isolation from the rest of the country, the separatist republics tended to open up politically, primarily by “appealing” to an international factor to take “democratic” control. The “xenophiles” with separatist inclinations tended to internationalize “their” cause, lacking the power to achieve their “thousand-year-old dream” of independence. On the other hand, the xenophobes that remained in the existing state ignored the importance of the international factor and therefore paid a much higher price in defending and safeguarding their vital interests.

In single-party mobilizational systems – such as the Yugoslav system after 1945 – inter-regional policy, or any other policy, cannot be dissociated from its ideological underpinnings. This is particularly true of inter-ethnic and inter-republican relations, whose framework and direction was set by an explicit, full-fledged national politics derived from the Marxist–Leninist ideological postulates of the system. Lenin argues that “all definitions in general have only a conditional and relative meaning,” and so does the definition of nation, particularly with regard to its dialectical and histori-

cal connections with class and society. These connections are not defined by any universal rule. Labor parties are entitled to “differentiated” political strategies, Lenin points out. So, labor parties of an “oppressive nation” are entitled to insist upon the “right of an oppressed nation to *secession*,” whereas the labor party of “an oppressed nation” should insist on “the right to *unification*.” *A big nation has to accept a certain inequality in relation to a small nation.* In this way, it would give up the advantages that it unjustifiably gained during the previous period of historical development, as well as the advantages stemming from the mere fact of its numerical superiority over small nations. The right of each nation to self-determination, uncompromisingly defended by Lenin, coincides with the interests of the proletariat, i.e. of the communist revolution. The latter has international aspirations and in this regard the “national question” itself becomes a global issue – it is directly associated with the establishment of the *Communist New World Order*. Therefore, wherever nationalism is subversive of an existing (noncommunist) order, “the right of oppressed nations to self-determination” should be “unwaveringly” supported. For Lenin, national self-determination means “political self-determination, the right to secession and establishment of an independent state.” The right of a nation to self-determination, according to Lenin, is an uncompromising principle of political democracy. But it also means a *complete equalization* (!) *of nations* in terms of economy, culture and education. In a multinational community, with markedly uneven development, “under socialism,” this implies an active policy of national equality, in other words a considerable redistribution of the “conditions and results” of development or, in regional policy terms, an “even regional development.”

Despite assertions of official ideologues that the politics dealing with the national question was consistent at least *since 1925*, several *stages in the development of the Yugoslav communists’ national politics* are noticeable. These are: (1) 1919–1923: defense of *centralism* and *unitarism*, the concept of the three-name (Serbo-Croat-Slovenian) people; (2) 1923–1928: internal *disputes* between the left wing and the right wing of the Party; (3) 1928–1934: the period of the *Comintern*, marked by the Comintern order to split Yugoslavia into separate, ethnically homogenous national states; (4) 1934–1943: recognition of the right to *national self-determination*, coupled with the desire to preserve the unity of the socialist Yugoslavia; (5) 1943–1964: *federalism* characterized by the disjunction of the republics and nations,

and the more implicitly than explicitly formulated idea of *Yugoslavism*; (6) 1964–1974/1992: dismissal of Yugoslavism and the identification of nations with republics and, consequently, of inter-ethnic with inter-republican relationships; and (7) 1974–1992: *consensualism* and the disintegration of the state.

The idea of *national economies* (i.e. economies of republics and provinces in which national working classes – through their /party/ states – freely use their national surplus values) emerged in the “sixth stage” of the evolution of the Party’s national politics, beginning in 1964 when the 8<sup>th</sup> Congress of the *League of Communists of Yugoslavia* laid the ideological foundations for the *identification of nations with republics*, i.e. of inter-ethnic with inter-republican relations.

The idea and the practice of “national economies” was accompanied by a variety of ideological rationalizations. Two fundamental attitudes that provided plausible grounds for republican and provincial economies to become “national economies” were: (a) that “national economies” ... “are a safeguard against unequal relationships and against any attempts at exploitation” [Hadžiomerović 1989]; and (b) that “national economies” promote national independence and state sovereignty. Thus, the *economy was defined in strictly functional terms, in terms of promoting state sovereignty*: the completion of protected economic structures of republics and provinces, i.e. the creation of “national economies spring out of a natural need to secure the strongest and safest possible foundation for the economic independence implied by sovereignty” [Hadžiomerović 1989]<sup>2</sup>.

The degrees of external dependence and of autarky, however, did not prove to be inversely proportional, as was believed by the break-up theorists. That dependence and autarky are not mutually exclusive (i.e. that *autarky is no remedy for dependence*) is illustrated by numerous examples of underde-

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2 “Yugoslav authors argue about whether the degree of autarky among regions actually increased. Očić (1986a) points to evidence of declining interregional trade flows in the 1970s. He sees this as the result of the constitutional amendments of 1971 limiting interregional banking, and the Constitution of 1974, which formally devolved authority to regional governments. Similarly, Kraft (1989) shows that the structure of regional industrial capital stocks has converged over time, reinforcing the notion of increased autarky. Bicanic (1988) argues that autarkic development was simply a response to an extremely rigid and dysfunctional economic system. Hence autarky was driven by a need to adapt, rather than a desire for autarky *per se*. Burkett and Skegro (1988), on the other hand, argue that there is no evidence of systematic change in the degree of autarky. Using three different measures, they find no time trend for variables measuring autarky.” [Kraft 1989: 24]

veloped countries whose *dependence has grown shifting from consumer goods to production goods*. As imports and particularly technological dependence increased so did the overall dependence. Also, dependence is usually associated with the market as – in Marxist terms – an exploitative institutional mechanism *per se*. Did the market enable transfers of income from underdeveloped to developed Yugoslav regions? Perhaps it did, inasmuch as the market existed. It should be noted that in Yugoslavia certain functions of the market (the allocative function, for instance) hardly ever performed. The market was parceled: inter-republican trade kept declining. Actually, there was no single Yugoslav market for goods, let alone for factors of production. Besides, developed regions (potential exploiters) and underdeveloped regions (potentially exploited) were closing their respective regional markets with an almost equal intensity.

In the case of Yugoslavia one could hardly speak of classic (market) exploitation, in view of the fundamentally anti-market orientation of the system in all its forms – from the centrally planned to the consensual. Exploitation was a matter of position and status, involving, first, the monopoly to create institutions and, then, the very place in the power structure. As *the power centers were mostly located in the sphere of politics rather than of the economy*, the crucial role in both social and regional (national) exploitation was played by the privileged social groups, republics and nations.

The *domination of the political sphere over the economic one*, from the point of view of Yugoslav regional development, manifested itself in the strong action of the political elites of the loosely connected federal units towards *increasing closure* of the republic/provincial economies. The insistence of these “elites” on the creation of six “national” economies meant an anachronistic, anti-developmental *fragmentation* of the Yugoslav economic (and not only economic) space. The creation of “national” economies provided the basis for a qualitative change in the organization of the state: the creation of several independent, sovereign states *vis-a-vis* the federation.

The process of putting into practice the concept of national economies (with corresponding autarkic tendencies) led to a continuous slowdown in Yugoslavia’s economic growth, its diminishing competitiveness and growing dependence. Concurrently, the process was a source of constant political instability and harsh conflicts. The concept of national economies brought diverse “passions” into the economic sphere, which more than any other sphere should be ruled by reason. So, this sphere (otherwise the primary, and in

developed countries almost exclusive source of conflicts of interest) lent additional strength to an already strong and objectively determined secondary line of conflicts (race, religion, nation and language) so characteristic of developing countries.

*The two ideological and political cornerstones of the post-war Yugoslav "commonwealth" were the following: (a) that the socialist society will manage to solve the problem of uneven (economic) regional development, unsolvable under capitalism; and (b) that only socialism makes national harmony and equality possible. Was the regional problem solved (or at least alleviated) in the socialist, federal republic of Yugoslavia? Were national equality and harmony achieved? The answer is definitely negative: Yugoslavia's development after 1945 and after 1965 showed the end of the path of decentralization without democracy and without efficient mechanisms of economic cohesion, with arbitrary inter-regional redistribution and a permanently suboptimal global allocation of resources. The heightening effect of centripetal forces led the Yugoslav economy, state and society ... into disintegration, eventually taking the form of an explosion.*

#### THE ROLE OF NATION AND NATIONALISM IN THE BREAK-UP OF YUGOSLAVIA

The role of nation and nationalism in the break-up of Yugoslavia is twofold. It has its (a) international and (b) internal aspects.

In more recent history, because of its subversive nature, nationalism has been the most suitable vehicle for breaking up large (especially multinational) states. Today, the leading actors in world politics use it, first and foremost, to dismantle the Soviet (communist) empire. Here, *Yugoslavia served as a guinea pig* for testing the mechanism of the *New World Order* (NWO). In the vocabulary of the NWO protagonists both the Russians and the Serbs are referred to as expansionist and conquering, i.e. as imperialistic ("oppressive") nations. This is not the only correspondence between the NWO and Marxist–Leninist (communist) terminologies. The latest NWO, like communism, also has planetary ambitions and, in its purpose and essence, though not in terminology (which is democratic), is equally revolutionary, because the change is so universal and radical that it can only be effected by force. Therefore, it is concerned neither with legality nor with legitimacy. The fight



against communism is used as a justification for secessionism – anti-communism is an alibi not only for separatism, but also for various kinds of selective (inconsistent, i.e. *ad hoc*) foreign intervention. The NWO means a victory of the bourgeois principle over the proletarian principle and therefore nationalism is always supported because it is now primarily anti-communist in nature. The New World Order uses nationalism to score a victory over communism but, fundamentally, not to promote the nation, rather to negate it. Just as the nation (nationalism) is a temporary aid to the proletariat in its struggle against capitalism and for the Communist New World Order, so is it to the Anti-communist New World Order. The New World Order is, thus, not only anti-communist but also anti-national (it advocates “a confederation of regions” which is why it is being introduced into the “Old Continent” as “the Europe of regions”).

Within Yugoslavia, various nationalisms were used, on the one hand, as an ideology of separatists, and as a demagogy of (caste rather than crypto-communist) *elites*, on the other. They used it to mobilize their “own” national “masses” and pit them against others for the purpose of preserving and strengthening their own power. The ideological heritage of (Austro-) Marxism provided many good ideas for the “nationalization” of socialism and communism (in the form of national communism) so that for the “new” ideologues (Kardelj and the like) it was not difficult to devise different varieties of Marxist, socialist, self-management... doctrines that were in line with different stages of “building socialism.” At the end of this road arose the question of whether these were stages in the progress of the socialist society or stages in attaining strategic goals of the national development of various Yugoslav nations.

Differences in traditional national programs occasionally manifested in the form of “crises of growth” (e.g. around 1970). In the 1990s, previously carefully hidden behind the screen of communist, socialist and self-management phraseology, the long-term strategies of the secessionist nations (primarily the Slovenians and Croats) dramatically came to the fore, or, in other words, the last stage in the achievement of national goals and interests was launched. Victory in this stage is usually won by the cunning of the secessionist political mind, strongly supported and aided by a foreign factor. However, it seems that the internal factors of the break-up were dominant, at least in the initial stages of the process. In the beginning, actions of the foreign factor were discreet, but then acquired a more direct form of supporting the integration

of some parts of Yugoslavia into (Central) Europe (Alpe-Adria), ending in military assistance to the secessionist Yugoslav nations and even with a threat of international armed intervention against “uncooperative” Serbs.

### THE POLITICAL AND ECONOMIC OBJECTIVES OF SEPARATISM

For Marxists, revolutions were national in their form and class in their content. Yugoslav separatist (r)evolutions (except in their final stages) were “class” in form (ideology), and national in content. But did they, in the Yugoslav case, imply only a victory of the national idea or of the communist idea (as well)? The boundaries of the newly emerged states are communist, and so was the idea of achieving national “equality” through secession. It should be noted here that objections pointing to the risk of the disintegration of a state were overruled by Lenin with the following question: “from the point of view of democracy in general, and of the proletarian movement in particular... is there any freedom greater than the freedom to secede, freedom to create an independent national state?” In the Yugoslav case, *Lenin’s concept* of the right to national *self-determination*, ultimately seen as the *right to secession*, prevailed over the current *Western* (“civil”) *concept of this right as the right to choose the type of government within* (“inviolable”) *state borders*. With a triumph of the Leninist concept of the right to national self-determination, that is with a triumph of the separatist revolution, the Yugoslav state collapsed and so did Yugoslavism as pseudo-religious zeal.

It is usually thought that a growing *region-center disparity* should for the most part be attributed to economic *exploitation*, with the region being the victim. Schumacher [Schumacher 1973] argues that it is “the normal case... that the poor provinces wish to separate from the rich, while the rich want to hold on because they know that exploitation of the poor within one’s own frontiers is infinitely easier than exploitation of the poor beyond them.” It is undoubtedly true that a separatist movement is very strong in regions that lag behind the average economic development of the country of which they are part. Hansen points out that economic backwardness of poor regions should not be equated with their exploitation by the rich, particularly because the latter usually subsidize the former (in many different ways). Therefore, an analysis of exploitation costs suffered by a given region and of its benefits

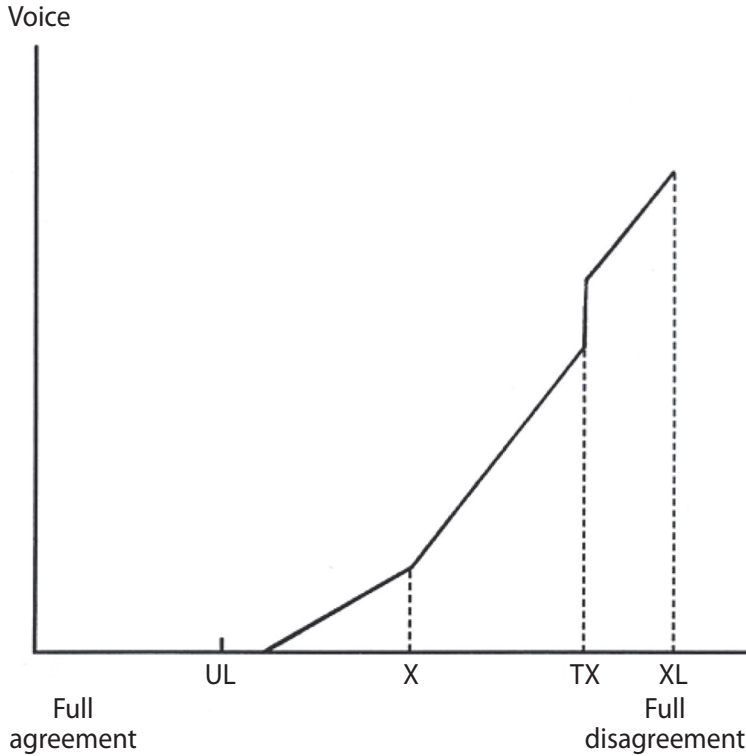


Figure 10. Loyalty under Diminishing State Unity

from subsidies could reveal whether it is a “loser” or actually a “winner.” Because, according to Hansen [Hansen 1978], in region–center disputes “the central issue is more likely to be regional equality than national efficiency.”

This is also true for cases when the rich regions believe that they are being exploited by the poor regions. However accurate the cost-benefit analysis of inter-regional relations, it cannot solve the problem of inter-regional conflicts by itself. Whether subsidized or exploited, a region may strive for independence for non-economic reasons. Actually, regions with strong separatist movements are characterized by a cultural identity which their inhabitants want to preserve. Most often, the question of cultural identity is intertwined with the economic motives for separation, combining into a more general *question* – that of *power*.

In the attainment of a non-economic goal of separatism, besides formulating political arguments in favor of separatism, often used are economic problems that have great significance for decision-making connected with

political choice. When a struggle for separatist status is only politically motivated, the cost of separation and the possible adverse consequences for a given region are not much of an issue. It is believed that in the case of strong political will for independence considerable economic sacrifices are acceptable. The economic consequences of independence are usually taken to be relative or even irrelevant when politics prevails over economy, and particularly if separation is taking place in a subsistence (more precisely, semi-natural) rather than a market economy, as was the case with Yugoslavia.

The political and economic objectives of separatism are often incompatible, partly because very few separations in history have been achieved by “consensus” (they have mostly been characterized by bloody wars, the costs of which in terms of material destruction and human lives should also be charged, contrary to usual practice, to separation accounts). Another form of incongruity between the economic and the political objectives of separatism is that, even when a region achieves political independence it remains dependent in trade, in putting joint ventures into operation etc. because of the previously established relationship of technological and economic interdependence between regions. That is why secession is often preceded by a policy to decrease dependence through a geographical redirection of economic flows or through increased self-reliance (autarky), coupled with a kind of a general self-segregation which, under a widespread political arbitrariness, appears to be an easier and faster way to independence. That a “*break-up*” and independence are not positively correlated is illustrated by numerous cases among which, as we have already shown, the *Yugoslav case* is very striking. A “fast and easy” way relatively quickly shows its real costs. And thus a need arises for a (relative) decline in *real income* to be increasingly compensated by the so-called *psychic income* (Albert Breton [Breton 1964]).

#### MULTI-ETHNICITY, FEDERALISM AND REGIONALISM

Multi-ethnicity has served to justify the establishment of *federalism* in Yugoslavia. Federalism as a method of solving the national question (in the Leninist model) was the reason for the reconstruction of Yugoslavia on federal principles in 1943, which was confirmed by the Constitution of January 31, 1946, after the Communist Party of Yugoslavia took power by revolution in 1945. Such a “solution” is also rooted in the Party’s interwar concept of the

national question. The Comintern spirit based on the idea of breaking-up Yugoslavia was to mark almost half a century of Yugoslavia's history. This idea, following a systematic political, legal, economic, cultural and media groundwork, would finally be implemented through enormous violence.

After 1945, several federal projects were tested in Yugoslavia. Yugoslav federalism was becoming increasingly formalized in procedure, ever more complex, rigid and inconsistent, and thus less and less practicable. In the final analysis, of all its potentially strong and weak points, federalism in Yugoslavia displayed more of the latter.

<b>Confederation (<i>Staatenbund</i>)</b>	<b>Federation (<i>Bundesstaat</i>)</b>
International-legal form of a community	State-legal form of a community
Sovereignty resides in member states	Sovereignty resides in the federation
Joint decision-making on issues of joint interest based on an international agreement (treaty)	Participation of member states in constituting the federal political will
Passing of laws is in the jurisdiction of member states if it is not transferred to the community's organs	State authority is divided between the federation and member states
<b>Examples:</b> Union of Swiss Cantons from 1803 to 1848 German Confederation from 1815 to 1866 USA from 1778 to 1787	<b>Examples:</b> Switzerland after 1848 Federal Republic of Germany USA after 1787 India
<b>Unitary state</b>	
Administrative decentralization	Centralization
Passing of laws is in the jurisdiction of central authorities	Centralized state governance
It is limited by decisions stemming from the autonomous jurisdiction of regional and/or local self-government units	
<b>Examples:</b> Great Britain Italy	<b>Examples:</b> Germany from 1933 to 1945

Figure 11. Confederation, Federation and Unitary State  
Modified according to [Walper 1970:10]

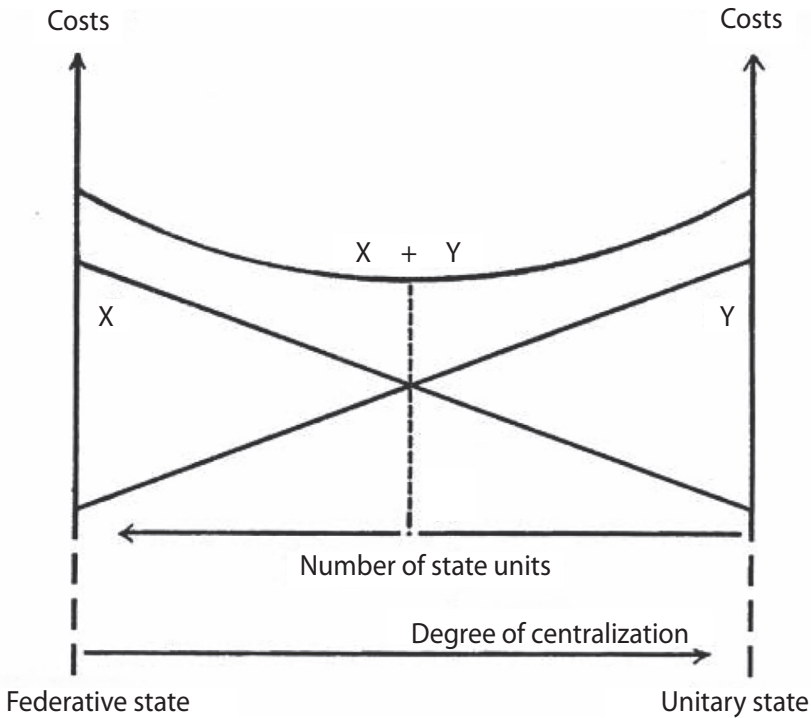


Figure 12. Federation: Optimal Degree of (De)centralization

where:

X - costs of decentralization  
 ("spillovers", diseconomies of scale, etc.)

Y - costs of centralization  
 (costs of the increased coordination, etc.)

In the Yugoslav case, federalism based solely on ethnic principles (introduced in the 1960s) could have functioned only if the complex, heterogenous Yugoslav reality was simplified to such a degree as to equate ethnic and republican boundaries, despite the fact that they rarely coincided. So simplified, the Yugoslav federal system – devised along ethnic lines – fixed the borders, directed the communications system, set the patterns of economic life, defined the limits and the directions of population movements, established the parameters of political life and political conflicts.

This type of federalism proved to be an inefficient mechanism for resolving conflicts and managing crises. Federalism based on regionalist principles

was not given an opportunity to display its qualities. It was constantly under ideological attacks as being a disguised *unitarism*, *hegemonism* etc. Thus, for example, a proposal made by Slovenian scholars in the 1950s that Yugoslavia, according to the principles of economic geography, should be divided into *four macro-regions* did not stand a chance of being seriously considered by the political factors. Any subsequent hint at the possibility of introducing federalism based on regional and developmental criteria was condemned as “an attempt at restoring *banovinas*” (multiethnic administrative subdivisions of Yugoslavia before 1941).

The 1974 constitutional model of federalism was implemented and institutionalized on the basis of plural national sovereignty which, “being confederally intact, sucked into its realm every issue raised at the federal level. Thus, in Yugoslavia, all issues of development, modernization, new technology, information systems, democratization etc., by the sheer manner by which they were raised and resolved, were turned into vital national questions and thereby into official inter-ethnic disputes” [Samardžić 1992].

All things considered, federalism in Yugoslavia could not but fail: sham democracy in a (withering) state without the rule of law, with a semi-natural inefficient economy, an absolute “ethnicization” of all relationships and the negative politicization of each and every question could only result in a “façade federalism.” Consequently, what failed was not “real” but *distorted federalism*. It did fail, but was the federalist idea, the idea of democratic federalism defeated in Yugoslavia? If all the preconditions for constitutional and democratic federalism had been satisfied, would Yugoslav federalism have been able to resolve the question of “plural national sovereignty,” which, indeed under extremely unfavorable conditions, it has thus far failed to do.

## FROM UTOPIA TO DYSTOPIA

The Yugoslavia established in 1918 and reconstructed along federal lines in 1943 is gone. The circle is closed. It was a long journey from positive to negative utopia (dystopia): from a nonexistent place to a bad, grim one. Dystopia is a common designation for the post-communist chaos and the post-Yugoslav chaos. With the collapse of the Titoist regime, the federal state also collapsed (because it was an ideological, party-based and not a legal state). The ideology was utopian; thus Yugoslavia (un)justifiably (?) shared its destiny.

Would the destiny of the second Yugoslavia have been the same independently of this? In other words, was the first Yugoslavia *utopian* as well? It was also an ideological state, based on an idea of integral Yugoslavism. Therefore, it also was a forced community, an “amalgam” produced primarily by ideological coercion. Yugoslavia as an unforced community could, in principle, be established as a community of interests, of probably loosely connected parts: *democracy* within it could work, because, as Kielmansegg argues, it *can only endure a plurality of interests, to a lesser extent a plurality of values, but almost to no extent a plurality of identities* [Kielmansegg 1991]. Can Yugoslavia survive as a voluntary spiritual community? A positive answer presupposes the existence of a Yugoslav nation, that is a Yugoslav national (spiritual) identity, since experience tells us that only a nation is a spiritual community.

Was there a Yugoslav “we” consciousness? It is evident that since 1918 there have been *different perceptions* (and different projections) of *Yugoslavia*: it turned out that some nations saw Yugoslavia (and subsequently communism) only as a vehicle for achieving some other (national strategic) goals, whereas for other nations Yugoslavia was a utopian ideal. The fall of communism in Eastern Europe provided the former with an opportunity to implement their strategic ideas (a sovereign state and national independence), while the latter saw Yugoslavia as the “final” solution.

Was the break-up of Yugoslavia chiefly caused by *external factors*, or should most of the blame for Yugoslavia’s exit from the historical stage be laid on *internal factors*? There are those who argue that “Yugoslavia was created by Europe” [Ekmečić <https://www.novosti.rs/c/drustvo/vesti/947083/evropa-gradila-razgradila-jugoslaviju-akademik-milorad-ekmecico-istorijskim-pret-postavkama-radjanja-zajednicke-drzave>], implying that Europe can also destroy it if it so chooses, and others who find that internal events have played a crucial role. According to the latter, all that happened in Yugoslavia from 1918 to 1929, 1934, 1937, 1941, 1943, 1945, 1964, 1968, 1971 to 1974... inevitably (?) led to what happened in 1990, 1991 and 1992. This article is not designed to analyze either the underlying or the immediate causes of current events on the territory of the former Yugoslavia. But, despite the absence of a “historical distance,” it seems that the thesis proposed at the beginning of this study about the importance of the regional problem has been confirmed: the regional problem was dramatically interrelated with the major issues of a multinational, federal, socialist community; thus, the study of the former has undoubtedly provided a clearer perception, explanation and understanding of the latter.



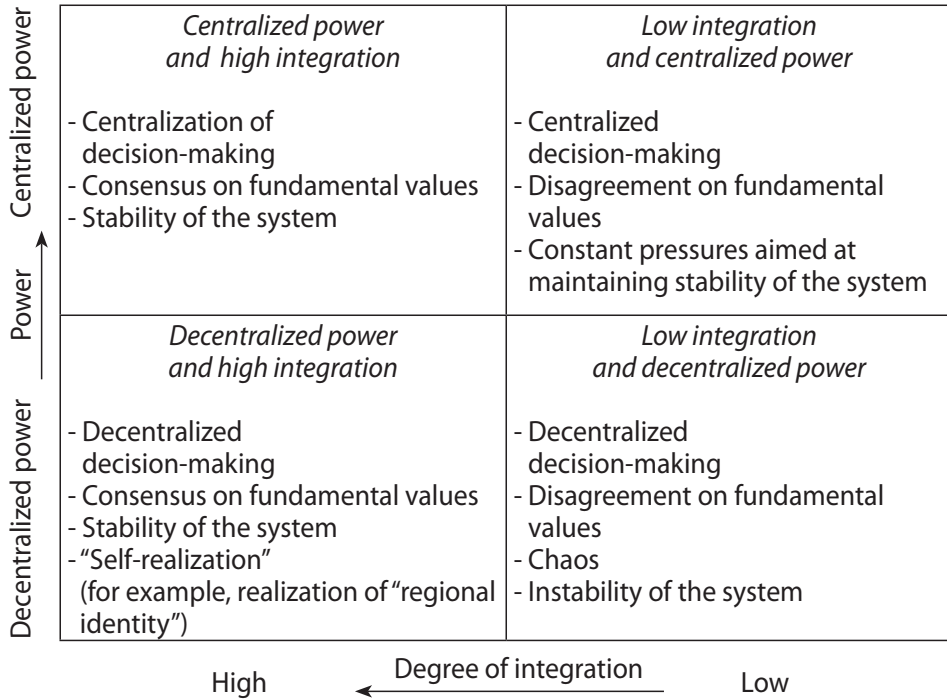


Figure 13. (De)centralization and (Dis)integration

*The Yugoslav pendulum swung ever closer to the point of disintegration, built-in “destabilizers” were activated, the (un)planned collapse of the state took place. This break-up was significantly facilitated by the regional policy, particularly by the formulation and operationalization of regional development goals. But the regional policy itself (and the way in which its goals were set) was undoubtedly a result of the action of other, deeper and more powerful forces.*

Yugoslavia has disintegrated into several smaller states. Many problems of the former state will be passed on to the newly emerged states. And these also are now faced or will be faced with problems of regional development disparities, federalism, inter-ethnic tensions...

(1992)

HETERONOMIE DER ZWECKE:  
 NATIONAL QUESTION, FEDERALISM AND REGIONAL DISPARITIES,  
 YUGOSLAVIA 1945–1990

Summary

Proportions of the Regional Problem in Yugoslavia – Level of Development of the Yugoslav Republics and Provinces: Classification of Regions – Structure of Development of the Yugoslav Republics and Provinces: An Attempt at Making a Typology of Regions – Changing Concepts of Yugoslav Regional Development – Efficiency of Regional Development – Regional Disparities – Inter-regional Redistribution – National Question – The Role of Nation and Nationalism in the Break-up of Yugoslavia – The Political and Economic Objectives of Separatism – Multi-ethnicity, Federalism and Regionalism – From Utopia to Dystopia.

Key Words

Yugoslavia, 1945–1990, Regional Problem, National Question, Federalism,  
 Break-up: Internal Causes Between the idea And the reality

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## LIST OF FIGURES

Figure 1.	Underdeveloped areas in Yugoslavia, 1947–1957. ....	186
Figure 2.	Underdeveloped areas in Yugoslavia, 1957–1961. ....	187
Figure 3.	Underdeveloped areas in Yugoslavia, 1961–1965. ....	187
Figure 4.	Underdeveloped areas in Yugoslavia, 1965–1990 . ....	188
Figure 5.	Monoethnic municipalities in Yugoslavia in 1981 (90% + municipality inhabitants belonging to one nationality/ethnic group). ....	190
Figure 6.	Changes in classification of republics and provinces according to the level of economic development, 1950–1987 . ....	193
Figure 7.	Yugoslavia: average output/capital ratio (PKJ) ("mysterious" 1965 turn) . ....	204
Figure 8.	Serbia: average output/capital ratio (PKJ) (mysterious 1965 turn) . . . . .	204
Figure 9.	Kosovo and Metohia: average output/capital ratio (PKJ) (investment "black whole"; investing in ethnicity). ....	204
Figure 10.	Loyalty under diminishing state unity . ....	217

<i>Figure 11.</i> Confederation, Federation and Unitary State Modified according to [Walper 1970:10] . . . . .	219
<i>Figure 12.</i> Federation: optimal degree of (de)centralization . . . . .	220
<i>Figure 13.</i> (De)centralization and (dis)integration . . . . .	223

## LIST OF TABLES

<i>Table 1.</i> The extent of the regional problem: the participation of underdeveloped areas in the respective aggregates of Yugoslavia . . . .	186
<i>Table 2.</i> Yugoslavia, republics and provinces: some basic features . . . . .	189
<i>Table 3.</i> Changes in the level of economic development; four group of regions, 1950–1987 . . . . .	194

## ABBREVIATIONS

BIH = Bosnia and Hercegovina	KIM = Kosovo and Metohia
CAP = capital (fixed assets)	MAC = Macedonia
CES = Central Serbia	MNE = Montenegro
CRO = Croatia	SLO = Slovenia
EMP = employment	VOJ = Vojvodina
GNP = gross national product	

## NAME INDEX

Ерши, Иштван (Eörsi Istvan) 206	Lenin, Vladimir Ilich 210, 211, 216, 218
Илић, Јован (Jovan Ilić) 224	Rusinow, Dennison 226
Перовић, Слободан (Slobodan Perović) 224	Samardžić, Slobodan 221, 225
Оцић, Часлав (Časlav Očić) 224	Schumacher, Ernst Friedrich 216, 226
	Sugar, Peter F. 183, 225
Bicanic, Ivo 212, 224	Skegro, Borislav 212, 225
Breton, Albert 218	Vukmanović Tempo, Svetozar 190, 225
Burkett, John 212, 225	Walper, Karl-Heinz 219, 225
Dumont, Louis 188, 225	
Ekmečić, Milorad 222, 225	Clausewitz(ian) 210
Hadžiomerović, Hasan 225	Marx(ist) 210, 213–216, 225
Hansen, Niles 225	Stalin(ist) 202, 205, 209, 215, 225
Kraft, Evan 212, 225	Kardelj(ist) 205
Kielmansegg, Peter Graf 225	Lenin(ist) 210

## SUBJECT INDEX

- absorptive capacity of the economy 199  
 Alpe-Adria 216  
 area 186–189, 198, 226, 227  
 autarky 196, 212, 218  
 balance of trade 126–127  
 banovina 221  
 Bosnia and Hercegovina (BIH) 187–194,  
 196, 199–201, 227  
 Central Serbia (CES) 187–194, 196,  
 199–201, 227  
 centralization 218, 220, 223  
 classification 190, 192, 193, 224  
 cluster analysis 192  
 Comintern 211, 219  
 Communist Party of Yugoslavia 218  
 confederalism (conflict-causing) 190  
 consensualism 212  
 consensus (unanimity rule) 188, 218, 223  
 Croatia (CRO) 187–194, 196, 199–201,  
 227  
 decentralization, administrative 202,  
 204, 214, 219–220  
 demonstration effect 82, 198  
 development, regional 179–203, 206,  
 209–210, 213–214, 223–224  
 development, social 197  
 disintegration 210, 212, 214, 216, 223  
 double standards 202, 206  
 dualism, economic 199  
 dualism, social 199  
 dystopia 221, 224  
 economy, centrally planned 190, 213  
 economy, market-planned 190  
 economy, self-management agreement  
 190, 203  
 egalitarianism 188  
 equality of the republics and provinces  
 189–190, 201–203, 210, 211, 214, 216  
 inter-region 200, 206, 217  
 Europe of regions 215  
 exploitation 212, 216  
 factor analysis 192  
 Federal Fund (for Crediting Underdeve-  
 loped Republics and Provinces) 209  
 federal units 203, 213  
 federalism 223–224, 218–221  
 federalism, cooperative 190  
 federalism, distorted 221  
 “final” solution 222, 210  
 five-year plan 186  
 fixed assets 186, 191, 193, 197, 206–209,  
 227  
 forces, centripetal 214  
 Germany 219  
 goal system, territorially coordinated 191  
 goal system, territorially uncoordinated  
 191  
 Great Britain 219  
 growth, economic 213  
 hegemonism 221  
 Heteronomie der Zwecke 189, 224  
 identity 217, 222  
 identity, regional 223  
 ideology 188, 215–216, 221, 225  
 indicator 191, 197–198, 206–208  
 industrialization, socialist 195, 197  
 integration 215, 223, 227  
 interest coordination and harmonization  
 189  
 interest, regional 188  
 investment 195, 199–200, 204, 208–209,  
 225  
 Kosovo and Metohia (KIM) 187–194,  
 196, 199–201, 227  
 Macedonia (MAC) 187–194, 196,  
 199–201, 227

- Montenegro (MNE) 187–194, 196, 199–201, 227
- municipality 190, 226
- nation 205–206, 214–216, 222, 224
- national economy 212
- national question 215
- nationalism 214–215, 225–226
- New World Order (NWO) 211, 214–215
- nomenklatura 210
- optimum, global 190, 220
- output/capital ratio 204
- parasitic involution 203
- productive forces 191, 200–202
- province 187–194, 196, 200, 201, 212, 216, 224, 226–227
- psychic income 218
- redistribution of income 200
- redistribution, inter-regional 209–210, 224
- region, developed 194, 196, 198, 201–202, 209, 213
- region, the least developed 191–192, 194
- region, the most developed 194
- region, underdeveloped 194–196, 198, 200–201, 203
- regional disparities 203, 207, 209, 213
- regional problem 186, 188, 204, 222, 224
- regional problem, proportions of the 185
- regionalizing Yugoslavia 187
- region–center disparity 216–217
- republic 219, 224, 226, 227
- revolution of rising expectations 198
- rigidification, regional policy of 189
- “robbing-Peter-to-pay-Paul” 201
- secessionism 215
- self-management, workers’ 205
- separatism 215, 218, 225
- separatism, economic objectives of 224
- separatism, political objectives of 216, 224
- Serbia (SRB) 187–194, 196, 199–201, 227
- Slovenia (SLO) 187–194, 196, 199–201, 227
- sovereignty 205, 209–210, 212, 221, 219
- spillovers 224
- state 187, 189–195, 200, 203, 205, 209–214, 216, 218, 220–226
- strategic territories 190
- structural change 191, 195
- Switzerland 219
- the break-up of Yugoslavia: external factors 222
- the break-up of Yugoslavia: internal factors 222
- trade, inter-regional 196
- transfer 185, 201, 209, 213
- typology 194–195, 224
- underdevelopment status 185
- unitarism 221, 224
- utopia 265
- Vojvodina (VOJ) 187–194, 196, 199–201, 227
- Yugoslavia 187–194, 196, 199–201, 227
- Yugoslavism 212, 216, 222





KOSOVO AND METOHIA:  
ETNODEMOGRAPHIC CHANGES  
FROM THE END OF WORLD WAR II TO 1991



## INTRODUCTION

The basic aim of this paper is to determine the overall scale of the ethnodemographic changes that took place on the territory of Kosovo and Metohia (Kosmet) during the period of communist rule in Yugoslavia, as well as to spatially locate these changes and quantify them at the municipality and settlement level.

The dynamics and the structure of the changes in the national character of this province – its radical Albanization and de-Serbization – represent a drastic example (previously unparalleled – until the Croatian expulsion of the Serbs from the Republic of Croatia in the “Flash” and “Storm” military operations of 1995) of ethnic cleansing<sup>1</sup>. Just in the period between 1961 and 1981, 42.2% of all Kosmet Serbs and 63.3% of Serbs who declare themselves as Montenegrins emigrated from Kosovo and Metohia.

This ethnic cleansing of the Serbs was caused as much by ideological motives as it was by strong anti-Serbian national and state interests<sup>2,3</sup>.

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1 In literature, the term *ethnic homogenization* has been used until now (see: [Petrović and Blagojević 1989] and [Petrović and Blagojević 1992]).

2 Already in 1923, the Communist Party of Yugoslavia changed its aim, from a *struggle* against *all* “forced and hegemonistic centralism” to a struggle against *Serbian* “chauvinism and hegemony:” thus, in 1924, it is proclaimed that it is “the duty of the Party, along with the organizations of the working masses of the oppressed nations, to wage joint, open struggle for the right to secession, that is, to help the movements of the oppressed nations in the aim of forming the independent states of Croatia, Slovenia, Macedonia and Montenegro, as well as of liberating the Albanians”.

3 Dušan Bataković searches for deeper causes that could more precisely explain the nature (and context) of the situation in Kosovo and Metohia: “A deep driving force of all the tectonic disturbances in Kosovo and Metohia emerged from layers beneath the deceptive communist reality and the inheritance of a centuries long conflict of different nations: a clash of two civilizations, the Christian and the Islamic, which found cohabitations difficult even in other European countries where an Islamized population is actually a minority... the clash of civilization as a powerful process of ‘la longue duree’, remains the framework which will, perhaps even permanently, determine the further flow of history in this entire region.” [Bataković 1992: 213]. See also: [Joksimovich 1999 and [Joksimovich 2006: 193–240].

Under the influence of the Comintern (its Resolution on the Yugoslav Question was brought in 1926), the Communist Party of Yugoslavia (CPY) moved from a critique of the *Serbian bourgeoisie* as “hegemonistic,” to a critique of the *Serbian nation* as a ruling and an oppressive one... The CPY held that the communists in “Serbia itself, where the base of the hegemonistic regime was located, while recognizing the open right to secession and the right to armed rebellion again: national oppression, and while preaching and providing systematic help to the movements of the oppressed nations” should also fight against the imperialist policy of state and national unity.

The expulsion of the Serbs<sup>4</sup>, along with the Kosmet Albanian demographic explosion (during the 1970s and 1980s, the Kosmet Albanians, i.e. ethnic or Kosovo Albanians accounted for about 85% of the overall population increase in the Republic of Serbia the immigration of Albanians from Albania (during and after WWII<sup>5</sup>, with the latest wave coming after 1999<sup>6</sup>), and the assimilation of the non-Albanian population can be seen as both the causes and the results of Kosmet Albanian secessionism. The regime of the so-called Second Yugoslavia systematically supported this secessionism. At the same time, although they didn't support it directly, Serb members of the regime certainly tolerated it.

The Kosmet problem has taken on such a large scale because it was a taboo theme for decades, and it is now shaking the foundations of the Serbian state today and endangering its security, especially along its strategic corridors. It should be analyzed thoroughly, especially having in mind the failure

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4 The expulsion of the Serbs has been a constant process since 1941: its largest wave occurred in the periods of 1941–1944, 1966–1989, and from 1999 to the present. The estimates of the first wave range between 70,000 and 140,000 (not counting those who were killed), for the second wave approximately 200,000, while in the latest wave, the number of expelled Serbs (an other non-Albanians) from Kosovo and Metohia has reached a quarter of a million. For a more in-depth look regarding the situation during World War II, see: [Antonijević 2004], [Pejin 2004], [Milošević 1981]).

5 [Živančević 1989].

6 The data about the emigration of Albanians from Albania into Kosovo and Metohia from 1999 and after has been kept under embargo by UNMIK and KFOR. There is no doubt that the number of immigrants from Albania has been significant, which is reflected by a substantial rise the population of the province during the last decade or so, despite the expulsion of Serbs from Kosovo and Metohia. At the same time, the total number of Albanians in the Balkans has relative declined: „More than a million people have left Albania, for various reasons... the expected Macedonian census figures show a trend of depopulation not only among the Macedonian but the Albanian population as well.“ [Kojčinovski 2003: 21].

of its „international” „solving“. This situation requires a greater participation of the Serbian factor in the solution for Kosmet, while the prerequisite of a successful solution to the problem of Kosmet lies in a thorough research, not only of what is being presented here, but of the problem's other aspects: legal, economic, social, political, historical, cultural, geopolitical...

## POPULATION AND SETTLEMENTS

### Population numbers and structure

According to the population census of 1991, Kosmet had a population of 1,954,747, or almost one fifth of the total population of Serbia. In comparison to the census of 1948, the population of the province had grown by 1,221,713 (an index of 266.7). In the same period, the population of Serbia grew by 50%, of central Serbia by 40.2%, and of Vojvodina by only 22.7%, resulting in a change in the participation of each of these territorial units in the total population of Serbia.

Between 1880 and 1913, the population of Kosmet more than doubled. The reduction in numbers in the census of 1921 relative to that of 1913 can be explained by the emigration of ethnic Turks to Turkey after the breakup of the Ottoman Empire.

The rise in the population of Kosmet recorded in 1948 is a result of the usurpation of the estates belonging to expelled Serbs by Albanians from Albania<sup>7</sup> during the time of the occupation (1941–1945)<sup>8</sup>. These Albanian

---

7 “It would be important here to answer the question regarding how many Albanians were settled on the territory of Kosovo and Metohia up to the end of World War II. But there are no documents about this, which makes the answer impossible. The relevant documentation was deliberately destroyed or removed, both for this and the subsequent period. Another reason for not being able to get at the truth lies in the fact that the birth records in many of the municipalities were reconstructed and founded on inaccurate data after the war. It is a known fact that there are individuals born in Albania whose birth records show that they were born in Yugoslavia. There are also cases in which those born in Albania were presented as having emigrated to Albania before the war (only to come back after it ended). The regime accepted and tolerated such and similar claims. Such actions were a part of an organized process, whose ultimate goal was to change the national composition of the population in Kosovo and Metohia, as a phase in the process of forming an ethnically clean ‘Greater Albania’. The process started with the occupation of 1941 and continued in the years following the liberation.” [Božović and Vavić 1991: 578; see the entire section: Albanian Colonization of Kosovo and Metohia, pp. 575–578].

8 For a more in-depth look, see: [Perazić]. Also see: [Božović and Vavić 1991: 554–575].

usurpers weren't repatriated to Albania after 1945, while the expelled Serbs were barred from returning by a law passed in 1945.

The significant rise in the population of Kosmet after 1945 brought an increase in the population density by a factor of more than two, i.e. from 67.3 in 1948 to 183.7 people per 1 km<sup>2</sup> in 1991.

As the rate of population increase in Kosmet relative to the preceding period rose after 1961, it correspondingly decreased in the remaining parts of Serbia.

The biggest factor in such significant changes was the high birthrate, as well as a decrease in the overall mortality rate. The birthrate in Kosmet was more than three times the rate in central Serbia, and did not fall below 29.4 per 1,000 during the entire period from 1948 to 1980. Thus, the great natural population increase in Kosmet was caused by an exceptionally high birthrate among the Kosmet Albanian populace.

The net rate of reproduction in Kosmet stabilized at about 2 per 1,000, being greater in 1982 than in 1953. On the other hand, the birthrate in central Serbia and Vojvodina does not even ensure simple reproduction of generations. The effect of the high fertility characteristic of the Kosmet Albanian population also affected the age structure, meaning that Kosmet gained an exceptionally young populace. More than half of the total population of Kosmet is made up of young people 19 years of age or below. The percentage of ethnic Albanians in the young population of Kosmet (81.9%) is greater than their percentage in the total population of the province (77.4%), while, in the case of the Serbs, their percentage in the entire population of Kosmet (14.9%) is greater than their percentage in the young populace of Kosmet (10.5%). The young populace dominates in the age structure of the Kosmet Albanians (55.3%), while the elderly (60 or more years of age) make up only 5.9% of the populace. The age structure of the Serbs is dominated by people of middle age, with a significantly smaller participation of young people and a visibly greater participation of the elderly.

Kosmet is mainly populated by ethnic Albanians (Kosmet Albanians) and Serbs, while members of other nationalities form a significantly smaller percentage of the populace. Until 1961, no significant changes in national structure took place, and the relative population proportions between the nations and national minorities did not change significantly. In 1953, there was a slight decrease in the percentage of Muslims (from 1.4% to 0.8%), as well as of Kosmet Albanians (from 67.9% to 64.3%). At the same time, the

percentage of Turks increased (from 0.2% to 4.2%). The reason for this certainly lies in differently reported nationality from census to census. In 1961, the percentage of Roma decreased from 1.5% to 0.3%, while those declaring themselves as Yugoslav appeared for the first time, numbering 5,206, or 0.5%.

The censuses of 1971, 1981 and 1991 show that large populations increase occurred in Kosmet after 1961 due to a high rate of natural population increase. At the same time, a significant change in the national structure of the populace took place, resulting in evident changes in the share of the affected peoples and national minorities in the total populace<sup>9</sup>. The number of Serbs and Turks decreased in absolute terms, with an accompanying increase in the number of ethnic Albanians, Muslims and Roma. The percentage of Serbs decreased from 23.6% in 1961 to 18.3% in 1971, 13.2% in 1981 and 10% in 1991. The percentage of Montenegrins fell from 3.9% to 2.5%, to 1.7%, and, finally, to 1% in the corresponding census years. The percentage of Kosmet Albanians, increased from 67.1% in 1961 to 73.7% in 1971, 77.4% in 1981 and 82.2% in 1991. The percentage of Muslims rose from 0.8% (1961) to 2.1% (1971), to 3.7% (1981), but decreased to 2.9% in 1991; the percentage of Roma grew from 0.3% to 1.2%, 2.1% and 2.2%; the percentage of Turks steadily decreased, from 2.7% in 1961 to 1% in 1971, 0.8% in 1981, and 0.6% in 1991. The population of other ethnic group members stagnated at about 3,000 or, in percentages, at about 0.3% and 0.2%, all the way up to 1991, when it increased to about 9,000 or 0.5%). The number of people declaring themselves as Yugoslavs in 1961 equaled 5,206, or 0.5%, in 1981 it was 2,676 or 0.2%, and in 1991 3,070 or 0.2%.

During the observed 30-year period there was a significant absolute decrease in the percentage of Serbs in the total population of Kosmet. This phenomenon can primarily be explained by Serb emigration, which became highly intensive during this period, as a result of psychological and other pressures and violence, which especially gained in intensity after 1968, the year when Kosmet Albanian separatist tendencies came out into the open for the first time.

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9 "...the cadres of the Provincial Bureau of Statistics, with the aid of Albanian political parties, doctored the 1981 census results to a significant degree, raising *ad bene placitum* the number of Albanians in the province by the method of classifying groups of ethnic Turks, Roma, Egyptians, Gorani, Ashkali, Circassians and others as Albanians; also included in the census were those who had emigrated from the province and deceased Albanians classified as still living, plus the number of newborn children was fictitiously raised." [Nedeljković 2005: 322].

Migration saldo of the total populace,  
ethnic Albanians and Serbs,  
1961–1981

During the twenty-year period between 1961 and 1981, 87,478 more people emigrated from Kosmet than immigrated into it. Nevertheless, the population of the province increased by 620,452, thanks to a high natural population increase, which equaled 707,830. During the same period, the number of Kosmet Albanians increased by 580,131, with the note that Kosmet Albanian immigrants outnumbered Kosmet Albanian emigrants by 43,947, while the total increase in the number of Kosmet Albanians by 536,184 is a result of their natural population increase, which amounted to 92.4% of the total population increase in the province. In the case of the Serbs, however, their negative migration saldo equaling –112,631 is a result of their emigration from Kosmet. The greater negative average rate of the Serb immigra-tional saldo in the second half of the observed twenty-year period shows that the intensity of their emigration was stronger in the period between 1971 and 1981.

Changes in national structure and population numbers  
by municipality

In the period between 1961 and 1981, the only municipality in which the total population did not increase was Leposavić, which had a Serb majority (91.9% in 1961 and 88.6% in 1981, with Montenegrins making up 0.2 and 0.5%, respectively), and where the total population decreased by 10.9%. The population increase in the other municipalities ranged from 12.2% in Kosovska Kamenica to 104.9% in Priština.

Besides Priština, exceptional population increases (i.e. greater than the Kosmet average of 64.4%) took place in the municipalities of Prizren (92.1%), Glogovac (83.8%), Uroševac (78.4%), Djakovica (73.1%), Orahovac (72.5%), Suva Reka (71.1%), Dragaš (66.6%), Peć (66.7%) and Vučitrn (64.7%). This significant population rise in all municipalities (except Leposavić), despite a negative migration saldo<sup>10</sup> in 17 municipalities in the period between 1961

<sup>10</sup> In the 1961–1971 period, the following municipalities had a positive migration saldo: Priština (with a migration rate saldo of 12.3%), Prizren (3.7%), Peć (2.8%), Uroševac (1.3%) and Kosovska Mitrovica (0.4%). In the next ten-year period, three municipalities



and 1971, and in 19 municipalities in the period between 1971 and 1981 is, in the first place, a result of the high birthrate among the Kosmet Albanian population.

The rise in the population of ethnic Albanians in Kosovo and Metohia as a whole equals 89.7%, being especially drastic in Priština, where the Kosmet Albanian population increased by a factor of 2.4 within twenty years (the total population of this municipality having doubled) and in the Uroševac municipality, in which the population grew by a factor of 2.1. Leaving aside the Leposavić and Kosovska Mitrovica municipalities, the number of Kosmet Albanians increased by a factor of over 1.6, with above-average growth being achieved in nine municipalities. In addition to Priština and Uroševac, these were: Vučitrn, with a growth of 99.4%, Dragaš (99.3%) Gnjilane (96.6%), Prizren (93.3%), Peć (92.5%), Glogovac (90.2%) and Kosovska Mitrovica (90%).

The number of Serbs<sup>11</sup> declined in 1981 relative to 1961 by 10.6%. Their numbers increased only in Priština (by 29.3%), where, however, the population of Kosmet Albanians grew by 143.9%, and the total population by 104.9%, and in the Gnjilane municipality, in which the increase was symbolic (by only 210 people, or 1.3%)<sup>12</sup>. In all other municipalities, the number of Serbs declined, by percentages ranging from 2% in the Prizren municipality, to 94.7% in the Glogovac municipality, where the Serb population fell from 599 in 1961 to only 32 in 1981.

The Serb population declined significantly (by more than 20%) in ten municipalities. Besides Glogovac, these were: Podujevo (by 70.4%), Kačanik (64.9%), Srbica (63.1%), Dečani (61.6%), Dragaš (41.2%), Vučitrn (33.5%), Istok (25.6%), Djakovica (22.7%) and Vitina (20.5%).

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– Priština with a rate of 5.3%, Prizren (3.8%) and Uroševac (1.7%) kept their immigration character, while the remaining two became emigrational, with Peć having a rate of -3.2%, and Kosovska Mitrovica an even more pronounced rate of -9.2%. It is characteristic that the percentage of Serbs in the total population of these two municipalities in the period between 1961–1981 fell by a factor of about two (from 32.3% to 16% in Peć and from 45.2% to 26.5% in Kosovska Mitrovica). Keeping in mind the facts that the numbers and percentages of Kosmet Albanians grew in both the municipalities, and that both had a high rate of natural increase, it may be concluded that the reason for their change of status to emigration municipalities lay in an increase in the number of Serbs that left them.

11 Here (and in further text) “Serbs” stands for “Serbs and Montenegrins”.

12 Despite a slight increase in the Serb population in these two municipalities, their percentage against the total population decreased from 37.9% to 24.3% (a factor of 1.56) in the Priština municipality, and from 35.8% to 22.6% (factor of 1.58) in the Gnjilane municipality.

In 1961, these ten municipalities had a total population of 330,854, while the 1981 census recorded 525,302, for a total population increase of 194,448 or 58.8%. The Serb population in 1961 equaled 55,998, and only 34,149 in 1981, a decrease by 21,849, or 39%. At the same time, the Kosmet Albanian population in 1961 equaled 256,323, while in 1981 it stood at 462,267, amounting to an increase of 205,944, or 78.3%. The percentage of Serbs in the total population of these ten municipalities fell from 16.9% to only 6.5% in 1981, while the percentage of Kosmet Albanians increased from 77.5% to 88%.

In regard to their national structure, all the Kosmet municipalities, except for Leposavić, may be divided into three groups:

1. *First group* made up of 7 municipalities with a drastic decline in the percentage of Serbs in the observed 20-year period: Glogovac, where their percentage decreased by a factor of 27, Podujevo (4.92), Kačanik (4.50), Srbica (4.23), Dečani (4.11), Dragaš (3.0) and Vučitrn (2.48). In 1961, these 7 municipalities had a total population of 210,163, while, according to the census of 1981, their population had grown to 335,156, for a total increase of 124,993, or 59.5%. The number of Serbs in 1961 equaled 27,377, but only 12,158 in 1981, for a total decrease of 15,210, or 55.6%. The number of Kosmet Albanians increased from 168,896 in 1961, to 303,602, i.e. by 134,706 or 79.8%. The percentage of Serbs in these 7 municipalities against the total population declined from 13% in 1961 to only 3.6% in 1981, while the percentage of Kosmet Albanians rose from 80.4% to 90.6%.

2. *Second group* consisting of municipalities in which the proportion of the Serb population declined to approximately one half of the percentage in 1961, or to between 45–56% of the previous proportion. These are the municipalities of: Djakovica, Orahovac, Peć, Istok, Suva Reka, Prizren, Klina, Uroševac, and Vitina. In 5 of these 9 municipalities, the Serbs made up a significant percentage of the total population in 1961: Istok, with a 38.2% Serb population in 1961, Peć (32.3%), Vitina (31.9%), Uroševac (31.1%) and Klina (27.7%).

3. *Third group* consisting of 5 Kosmet municipalities in which the Serb population in 1961 also formed a significant portion of the population (from 28.8% in the Lipljan municipality to 44.8% in Kosovska Mitrovica), but in which the percentage of Serbs in 1981 was smaller by a factor of 1.32–1.69, declining to between 60–70% of the 1961 total. This group is made up of Priština and Kosovska Mitrovica, which belong to the group of the most developed Kosmet municipalities, along with Kosovska Kamenica, Lipljan and Gnjilane.

The Leposavić municipality, in which the percentage of Serbs also partly declined, doesn't fall under any of the above groups, due to the fact that the Serbs made up the majority in both 1961 and 1981.

According to the 1961 census, the percentage of Kosmet Albanians exceeded 90% in only two municipalities (Glogovac 96.5% and Kačanik 94%). However, by 1981, Kosmet Albanians made up more than 90% of the population in 8 municipalities: Glogovac (99.8%), Kačanik (97.9%), Srbica (97%), Dečani (96.4%), Podujevo (95.6%), Djakovica (95%), Suva Reka (93.6%) and Orahovac (92.2%).

According to the 1981 census, the percentage of Serbs fell below 10% in 11 municipalities: Vučitrn, Glogovac, Dečani, Dragaš, Djakovica, Kačanik, Orahovac, Podujevo, Prizren, Srbica and Suva Reka. In these municipalities taken together, the percentage of Serbs declined from 13.4% in 1961 to 5.3% in 1981, while the percentage of Kosmet Albanians increased from 80.7% to 87.5%. In 7 of these 11 municipalities, the percentage of Serbs in 1961 equaled or exceeded 11%, only to decline by a factor between 1.96 (Prizren) and 4.92 (Podujevo) in 1981. Thus, in the Vučitrn municipality, the percentage of Serbs declined from 24.5% to 9.9%, in Podujevo from 18.7% to 3.8%, Prizren from 17.8% to 9.1%, Orahovac from 14.2% to 6.9%, Suva Reka from 12.2% to 6%, Dečani from 11.5% to only 2.8% and Srbica from 11% to only 2.6%.

### Number and basic characteristics of settlements

The total area of Kosmet, which equals 10,887 km<sup>2</sup>, contains 1,445 settlements. With a median settlement density of 13.3 per 100 km<sup>2</sup>, an average settlement size of 7.5 km<sup>2</sup> and an average population of only 1,096 per settlement in 1981 (excluding municipal centers, the average population equaled 769), it is obvious that the settlements in Kosmet are characterized by great atomization<sup>13</sup>.

The tendency of forming ethnically clean areas – as a consequence of Serb emigration on the one hand, and the natural population increase among the Kosmet Albanians on the other – was a reflection of fundamental changes in the national structure of the population of Kosmet, and can be fully ob-

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13 In comparison, Vojvodina, with almost double the surface area of Kosmet, has 3 times fewer settlements (464), a median settlement density of 2.2 per 100 km<sup>2</sup> average settlement size of 46.3 km<sup>2</sup> and a population of 4,385 per settlement.

served in the changes that took place in the national structure of settlements in the previous time period.

The total number of settlements in Kosmet increased by a total of 7 in the period between 1961 and 1981, i.e. from 1,438 to 1,445. At the same time, the number of settlements without Serbs grew from 338 to 606, i.e. by 268 settlements, or by 79.3%, or a factor of 1.8. According to the 1961 census, these settlements made up 23.5% of the total number of settlements, while in 1981, their percentage reached 41.9%. An especially high number of settlements without Serbs was located in the municipalities of Djakovica and Kosovska Kamenica, in which the number of such settlements increased by a factor of almost 3.6 by 1981. In 5 municipalities (Vučitrn, Podujevo, Priština, Peć and Klina), the number of settlements without Serbs more than doubled, increasing by a factor between 2.1 to 2.3. In 1961, the Istok municipality did not have a single settlement without Serbs, only to have 4 such settlements by 1981. Only in the Leposavić municipality did the number of such settlements decrease, from 3 in 1961 to 2 in 1981.

According to the 1981 census, there were 13 Kosmet municipalities in which 50% or fewer of the settlements were without Serbs (Vitina, Vučitrn, Dečani, Istok, Kosovska Kamenica, Klina, Leposavić, Peć, Podujevo, Prizren, Priština, Kosovska Mitrovica and Uroševac). There were 4 municipalities where between one half and two-thirds of the settlements had no Serbs in 1981 (Gnjilane, Dragaš, Djakovica and Lipljan), while there were 5 municipalities with over two-thirds of settlements without Serbs (Glogovac, Kačanik, Orahovac, Srbica and Suva Reka).

The process of forming ethnically pure Kosmet Albanian areas becomes obvious not only in the absolute and relative increase in the number of settlements without Serbs, or in the decrease in the number of settlements in which Serbs could be found, but also through visible changes in the ethnic structure of settlements in which Serbs still lived. The figures reveal an intensive Serb emigration from these settlements.

It is noticeable that, in the 1961–1981 period, the Serbs were more rapidly being pushed out of settlements in the municipalities bordering Albania (Dečani, Djakovica, Prizren, Dragaš), from central Kosmet (Orahovac, Suva Reka, Glogovac, Srbica, Vučitrn, Lipljan) and settlements bordering south-central Serbia (especially the Podujevo municipality, and parts of the Priština and Kosovska Kamenica municipalities bordering the municipalities of Medvedja, Bujanovac, Vranje and Preševo).

In terms of settlement areas, the Serbs essentially concentrated themselves in *two groups*.

*First group* consisting of settlements in the municipalities of Peć, Istok, Klina, the western portion of Kosovska Mitrovica and Leposavić. This group contained a total of 320 settlements in 1981, or 38% of all settlements in which Serbs lived, with a population of 78,171 or 33% of the total Serb population of Kosmet.

*Second group* consisting of settlements in the municipalities of Uroševac, Prizren, Suva Reka, Vitina, Gnjilane, Lipljan, Priština and Kosovska Kamenica. In 1981, this group contained 307 settlements, or 36.6% of all Serb-populated settlements, with a population of 138,111, or 58% of the total number of Serbs in Kosmet.

The above-mentioned groups made up three quarters (74.6%) of all Serb-populated settlements, in which nine-tenths (91%) of the total population of Serbs in Kosmet resided.

The remaining Serb-populated settlements were mostly isolated, being to a much lesser extent tied to larger compact wholes.

## SERB-POPULATED SETTLEMENTS

### General overview

According to the 1981 census, Serbs lived in 839 out of the total 1,445 settlements in Kosmet.

This number includes settlements with very small numbers of Serbs, even if that number was one.

According to the 1981 census, there were 366 settlements with 1–50 Serbs, or 43.6% of the total number of settlements populated by Serbs in that year. In 1981, a total of only 6,016 Serbs were counted in these 366 settlements, for an average of 16 per settlement. At the same time, the number of Kosmet Albanians in this same group of settlements equaled 268,815, or 734 per settlement. This means that, on average, the number of Kosmet Albanians per settlement was about 45 times greater than the number of Serbs.

The remaining 437 settlements at the time of the 1981 census had 50 or more Serbs. The total number of Serbs in these settlements equaled 230,509, while the number of Kosmet Albanians was about 2.3 times greater (538,718).

When settlements with 50 or more Serbs from the Leposavić municipality<sup>14</sup> and the remaining 20 municipal centers<sup>15</sup> are excluded, we are left with a group of 401 settlements with 50 or more Serbs. The 1981 census recorded 135,281 Serbs in these settlements, and 196,729 Kosmet Albanians, or about 1.5 times more. The average number of Serbs per settlement equaled 337, while the average number of Kosmet Albanians equaled 491.

#### Settlements with over 90% Serbs and settlements with over 90% Kosmet Albanians

The figures from the 1981 census show that the Serb populace was almost entirely expelled from more than one third of the Kosmet municipalities, or 36.4% (Glogovac, Dečani, Djakovica, Kačanik, Orahovac, Podujevo, Srbica and Suva Reka), and that the process of ethnically cleansing the Serbs from these municipalities was almost completed by 1981.

Out of the total of 1,445 settlements in Kosmet in 1981, there were 232 settlements in which Serbs made up 90% or more of the total population, and 899 settlements in which Kosmet Albanians made up 90% or more of the population. This means that 78% of all the Kosmet settlements were those with a very high degree of ethnic homogenization, with Serb settlements making up 16.1% and Kosmet Albanian settlements 62.2% of the total number of such settlements. In 1981, 232 Serb-populated settlements had a total of 69,184 Serbs (an average of 299 per settlement), which made up 29.3% of the total number of Serbs in Kosmet. In the same year, the 899 Kosmet Albanian settlements had a total of 785,951 Kosmet Albanians (an average of 874 per settlement), or 64.1% of their total number. Serbs lived in 312 of the above-mentioned 899 settlements. The population of Kosmet Albanians in these settlements equaled 381,884 or an average of 1,224 per settlement. It is obvious that the Serb settlements were much less populous than the Kosmet Albanian settlements (for example, in 1981 there were 47 settlements with an exclusively Serb population, but their population ranged between 5 and 50,

14 The Leposavić municipality had 69 (out of a total of 71) settlements populated by Serbs, who made up 89.1% of the total population of this municipality in 1981 (with Kosmet Albanians accounting for 5.1% and others for 5.8%). Not counting the municipal center, there were 52 settlements with more than 50 Serbs, while 16 fell belonged to the group of 366 total settlements with 1–50 Serbs.

15 The municipal centers of Glogovac, with 19 Serbs, and Kačanik, with 27 Serbs, are included in the group of settlements with 1–50 Serbs.

and there were 30 exclusively Serb-populated settlements with a population between 50 and 100 people).

Among settlements with a population of 500 or below, 29.6% were settlements with an above-90% Serb population and 55.2% with an above-90% Kosmet Albanian population. Only 6% of the settlements with a population between 501 and 2000 were above-90% Serb, while 69% of these had an above-90% Kosmet Albanian population. Only one settlement with a population between 2001 and 5000 had an above-90% Serb population – Leposavić, with a total of 2,281 residents. On the other hand, in the same group, there were 52 settlements with an above-90% Kosmet Albanian population. Actually, Leposavić is the only settlement with a population above 2,000 with an above 90% Serb population.

#### Changes in numbers and national structure of the population in municipal centers

The basic characteristics of population changes in Kosmet in the period between 1961 and 1981 were: population growth in all municipalities (except for Leposavić), an exceptionally rapid rise of the Kosmet Albanian population in all municipalities without exception, a noticeable decline in the number of Serbs in all municipalities (except for Priština and Gnjilane). Such population changes resulted in a significant increase in the percentage of Kosmet Albanians and a decline in the percentage of Serbs in the total population of Kosmet, as well as in all the respective municipalities. At the same time, there was a marked increase in the number of settlements (by 268) entirely empty of Serbs.

The intensity of Serb emigration was conspicuously stronger in areas outside of the municipal centers. This is understandable due to the fact that the Serbs in rural areas were, as a rule, more directly and to a greater extent exposed to various kinds of pressure, threats to their property and personal safety, trespassing, etc., which, along with an accompanying Kosmet Albanian interest in purchasing their property, contributed to their decisions to emigrate from Kosmet.

Another of Kosmet's demographic characteristics was a rapid rise in the populations of municipal centers, which was a partial consequence of a process of migration from rural to urban areas.

The number of Kosmet Albanians rose both relatively and absolutely in all municipal centers, at a rate much greater than those in other settlements.

The basic reason for the increase in the Kosmet Albanian population was their extremely high birthrate, both in urban and in rural areas.

The 1981 Serb population increased in comparison to the 1961 population in 14 municipal centers (Priština, Vitina, Gnjilane, Djakovica, Istok, Klina, Kosovska Kamenica, Leposavić, Lipljan, Orahovac, Peć, Prizren, Kosovska Mitrovica and Uroševac), while decreasing in the remaining 8 municipal centers (Vučitrn, Glogovac, Dečani, Dragaš, Kačanik, Podujevo, Srbica and Suva Reka).

The increase in the Serb population in these 14 municipal centers is primarily a result of migration from other settlements, due, among other things, to the greater security of the former. However, even in these settlements, the increase in the Kosmet Albanian population is much greater: the index of population increase among the Kosmet Albanians equals 288.5, while the Serb population increase index equals 129.9, meaning that the rate of Kosmet Albanian population increase was 6.5 times greater.

In 1961, Serbs were more numerous than Kosmet Albanians in 8 municipal centers (Vitina, Dragaš, Istok, Klina, Kosovska Kamenica, Leposavić, Lipljan and Srbica), while in 1981 this number fell to just 3 (Vitina, Leposavić and Lipljan).

Almost a third (30.9%) of the Serb population of Kosmet lived in municipal centers in 1981. These centers can be classified into five groups according to the percentage of Serb population in the total population of each of the 22 Kosmet municipal centers:

*First group* – municipal centers in which Serbs make up *less than 1%* of the population. Kačanik and Glogovac fall into this group.

*Second group* – municipal centers in which Serbs make up between *1% and 10%* of the population. Six municipal centers fall into this group: Vučitrn, Dragaš, Podujevo, Srbica, Djakovica and Suva Reka.

*Third group* – municipal centers in which Serbs make up between *one tenth and one fifth* of the population. There are 8 municipal centers in this group: Prizren, Dečani, Uroševac, Gnjilane, Orahovac, Priština, Kosovska Mitrovica and Peć.

*Fourth group* – municipal centers in which Serbs make up between *one fifth and one third* of the population. This group includes three municipal centers: Klina, Kosovska Kamenica and Istok.

*Fifth group* – municipal centers in which Serbs make up *over one half* of the population. This group includes three municipal centers: Lipljan, Vitina and Leposavić.



The magnitude of both the absolute and the relative fall in the number of Serbs in Kosmet cannot be explained solely by the difference in natural population increase, even though it had the dimensions of a demographic explosion among the Kosmet Albanians. The rate of the relative decrease in the Serb population undoubtedly points to the conclusion that its main cause lies in the emigration of Serbs from Kosmet.

### Changes in the numbers and national structure of the populations in border municipalities and settlements

Changes in the national structure of border municipalities and settlements are especially important from a standpoint of the security of the state.

*Border municipalities.* Dečani, Dragaš, Djakovica and Prizren are the Kosmet municipalities that border Albania. In 1961, on the territory of these municipalities lived 17.6% and, in 1981, 19.1% of the population of Kosmet. In 1981, the vast majority of the population in these municipalities was made up of Kosmet Albanians. In Dečani municipality they made up 96%, in Djakovica 95%, in Prizren 69.9%, in Dragaš 53.1% of the total population. In the Dragaš municipality, 45.5% of the population was made up of Gorans, while in the Prizren municipality Muslims and Turks made up 18.5% of the population.

All the border municipalities underwent a significant population increase between 1961 and 1981, which, except for the Prizren municipality, was exclusively the result of natural increase, since all the said municipalities, again with the exception of Prizren, were emigrational. Thus, natural population increase made up for 93.9% of the absolute population rise in Prizren, and in all the other municipalities the natural increase was greater than the total population increase.

Since almost four-fifths of the population of border municipalities was made up of Kosmet Albanians, these Kosmet municipalities were also characterized by a large percentage of young people (52.3%). According to the census figures from 1981, over 54% of the Kosmet Albanian population was below 19 years of age, while among the Serbs this percentage comes to slightly below 35%. In the young population of the border municipalities the Kosmet Albanians made up 81.8% and the Serbs 3.8%. Working-age population made up 58.1% of the total of these municipalities, with almost three-fourths

of the Serbs and over one half of the Kosmet Albanians (56.2%) belonging to this group.

In the observed twenty year period, the Kosmet Albanian population on the territory of the border municipalities increased by 110,888 or 86.5%, and their percentage in the total population increased from 75.4 to 79%. As a consequence of emigration, as well as their smaller natural rate of increase relative to the Kosmet Albanians, the number of Serbs decreased by 2,280 or 11.7%, and the percentage of Serbs in the total population of these municipalities decreased from 11.5% in 1961 to 5.7% in 1981. Thus, the percentage of the Serb population in border municipalities halved in the space of twenty years.

In comparison to the other Kosmet municipalities, the number of Serbs in border municipalities fell more rapidly both in absolute and in relative terms. The Serb population in Kosmet municipalities excluding the border ones fell by 10.5% during the observed period, while its percentage against the whole fell from 30.9% to 17.1%, or 1.8 times.

The more rapid emigration of Serbs from border municipalities is also reflected in the increase in the number of settlements in which no Serbs remained. In the border municipalities, the number of settlements without Serbs increased by 54 between 1961 and 1981, or 1.9 times, while in other settlements it increased 1.8 times. Settlements without any Serbs made up one fourth and in 1981 almost one half (47.9%) of the total number of settlements in the border municipalities. The process of the ethnic cleansing of the Serbs and the formation of exclusively Kosmet Albanian settlements was especially conspicuous in the Djakovica municipality.

*Border settlements.* There are a total of 23 border settlements – those whose cadastre units directly border Albania.

The total number of 138 Serbs in these settlements was symbolic even in 1961, while in 1981 it was reduced even further, to a mere 55 residents. In 1961, there were no Serbs in 4 border settlements (2 in the Djakovica municipality and one in the Prizren municipality), while, according to the 1981 census, there were no Serbs in 15 border settlements, of which 8 belonged to the Djakovica municipality. The population of Serbs in the 8 border settlements in which they could still be found in 1981 was quite negligible, ranging between 1 and 17.

## THE NATIONAL STRUCTURE OF THE POPULATION IN 1981 AND 1991

Since the Kosmet Albanians boycotted the 1991 census, the following analysis of the national structure of the population of Kosmet is based on an estimate of the Provincial Statistical Bureau of Kosovo and Metohia.

Due to the significant changes made in Kosmet's municipal political-territorial division in the period between 1981 and 1991, the census figures from 1981 have been adjusted in order to be comparable with the data for the municipalities covered by the census of 1991. Territorial changes took place in the following municipalities: Glogovac<sup>16</sup>, Klina<sup>17</sup>, Kosovska Mitrovica<sup>18</sup>, Lipljan<sup>19</sup>, Orahovac<sup>20</sup>, Priština<sup>21</sup>, Suva Reka<sup>22</sup> and Uroševac<sup>23</sup>. The Dragaš municipality was terminated, and two new ones formed in its place: Gora and Opolje<sup>24</sup>. Also in this period, the following new municipalities were formed: Zvečan, Zubin Potok, Kosovo Polje, Mališevo<sup>25</sup>, Novo Brdo, Obilić, Štimlje and Štrpce.

The trends observed between the 1961 and the 1981 censuses continued in the following decade. In 1991, relative to 1981, the number of Serbs decreased by 21,170 (from 236,526 in 1981 to 215,356 in 1991), while the number of Kosmet Albanians increased by 380,854 (from 1,226,736 in 1981 to 1,607,690 in 1991). In other words, just the increase in the number of Kosmet Albanians in a span of ten years is greater than the total number of Serbs in Kosmet in 1991. This resulted in a further decrease in the percentage

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16 The municipality was reduced by the removal of the settlements of Beriša and Trpeza to the Mališevo municipality.

17 The municipality was reduced by the removal of the settlements that were attached to the new Mališevo municipality.

18 Municipality reduced by the removal of settlements to the new municipalities of Zubin Potok and Zvečan.

19 Municipality reduced by the removal of settlements to the new municipality of Štimlje.

20 Municipality reduced by the removal of settlements to the new municipality of Mališevo.

21 Municipality reduced by the removal of settlements to the new municipalities of Kosovo Polje, Novo Brdo and Obilić.

22 Municipality reduced by the removal of settlements to the new municipality of Mališevo.

23 Municipality reduced by the removal of settlements to the new municipalities of Štimlje and Štrpce.

24 This municipality was in the meantime attached to the Prizren municipality.

25 This municipality was disbanded in November of 1991, and all its settlements returned to the municipalities from which they were removed during the formation of Mališevo municipality in 1985.

of Serbs against the total population of Kosmet by 3.9 percentage points, i.e. from 14.9% to 11% in 1991. The percentage of Kosmet Albanians in the total population of Kosmet in this period increased by 4.8%, i.e. from 77.4% in 1981 to 82.2% in 1991.

### The national structure of the population by municipality

During this period, each of the 31 municipalities saw a decrease in the percentage of the Serb population relative to the population as a whole. The biggest decline in the percentage of Serbs relative to the total population happened in the newly formed municipalities of Novo Brdo (the percentage of Serbs was reduced by over two-fifths, i.e. from 74.1% in 1981 to 31.4% in 1991) and Zubin Potok (a reduction of more than one third, i.e. from 88.9% in 1981 to 53.2% in 1991). In 6 Kosmet municipalities, the percentage of Serbs decreased by more than 5%: Istok (-6.5), Kosovska Kamenica (-5.5), Gnjilane (-5.4), Priština (-5.3), Klina (-5.2) and Zvečan (-5.0). In the remaining Kosmet municipalities, this reduction ranged from 4.7% in the Peć municipality to 0.2% in the Štimlje municipality. In addition, the reduction was greater in those municipalities in which the Serb population formed a large percentage, which indicates that the process of Serbs emigration from Kosmet did not abate.

In only 3 Kosmet municipalities (Djakovica, Kosovo Polje and Štimlje) did the percentage of Kosmet Albanians decline slightly, primarily because of a greater number of residents declaring themselves as Roma, i.e. those who had, due to Kosmet Albanian pressure, during previous censuses declared themselves as Kosmet Albanian. For example, in Kosovo Polje, 10.4% of the population declared themselves as Roma in the 1991 census. In all the other Kosmet municipalities, there was an increase in the percentage of Kosmet Albanians relative to the total population. The most rapid rise in the percentage of Kosmet Albanian population occurred in the municipalities of Zubin Potok, where their percentage increased almost five-fold (factor of 4.78), Novo Brdo, in which their percentage more than doubled (factor of 2.45), and Zvečan, in which the percentage of Kosmet Albanians in 1991 increased relative to 1981 by 1.34 times. Since all 4 of the above-mentioned municipalities had a Serb majority in 1981 (Novo Brdo in 1991 no longer had a Serb majority), this change in the national structure also testified to a continued emigration of Serbs from Kosmet.

### Municipalities with a Serb or Kosmet Albanian majority

In 1981, there were 5 Kosmet municipalities with a Serb population of over 50%: Leposavić (89.1% Serbs), Zubin Potok (88.9%), Zvečan (86.8%), Novo Brdo (74.1%) and Štrpce (68%). By 1991, however their number was down to 4 with the Serbs losing their majority in the Novo Brdo municipality, their percentage falling to below one third of the total population.

Between 1981 and 1991, the number of municipalities with a Kosmet Albanian majority increased from 25 to 26. Thus, in 1981 there were only 6, and in 1991 only 5 municipalities in which Kosmet Albanians didn't make up over 50% of the population. Additionally, in one of these municipalities (Gora) – Gorans were the majority population, making up 94.1% of the population in 1981 and 94% in 1991.

The Serb municipalities are not only smaller in number but also smaller in size than the Kosmet Albanian-majority municipalities. Thus, in 1981, the Serb-majority municipalities had only 3.3% of the entire population of Kosmet, while those with a Kosmet Albanian majority contained 95.6%. In 1991, these percentages were 5.2% and 92.4%, respectively, with the population in the Serb municipalities increasing as a consequence of both an absolute and a relative growth of the Kosmet Albanian population in them.

In 1981, the Serbs who lived in Serb-majority municipalities made up 19.7% of the total Serb population in Kosmet, while in 1991 their percentage fell to only 15%. On the other hand, the Kosmet Albanians who lived in Kosmet Albanian majority municipalities made up 99.2% of the entire Kosmet Albanian population of Kosmet in 1981, and 94% in 1991. These figures indicate a dispersiveness and lack of concentration of the Serb population in Kosmet, as opposed to the exceptional concentration of Kosmet Albanians in „their“ municipalities.

The average population of Serb-majority municipalities in 1981 equaled 8,520, while by 1991 it had fallen to 8,086. The average population of Kosmet Albanian majority municipalities in 1981 equaled 48,680, climbing to 60,941 by 1991.

### Ethnically pure municipalities

A territory, in this case a municipality, is considered „ethnically pure“ if the members of one nationality make up over 90% of its population. Both in 1981 and 1991, there were 12 ethnically pure municipalities in Kosmet: 11

with an above-90% Kosmet Albanian majority and one with an above-90% Muslim majority. There was not a single municipality in the observed period in which the Serbs made up more than 90% of the population.

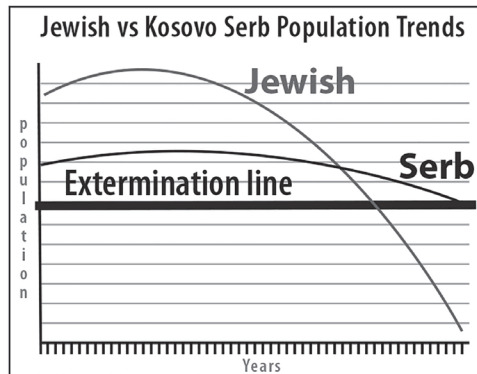
Gora is a municipality in which the Gorans made up 94% of the population in both 1981 and 1991.

Kosmet Albanians made up more than 90% of the population in the same municipalities in both 1981 and 1991: Glogovac (99.8% in 1981, and 100% in 1991), Dečani (96.4% and 97.6%), Djakovica (95% and 93.4%), Kačanik (97.9% and 98.5%), Mališevo (95.2% and 98.9%), Opolje (96.8% and 100%), Orahovac (91.9% and 92.1%), Podujevo (95.6% and 98.9%), Srbica (97% and Suva Reka (92.5% and 94.9%) and Štimlje (97.3% and 92.5%).

The average population of these municipalities climbed from 43,128 in 1981 to 65,760 in 1991. The Kosmet Albanians who lived in these municipalities made up 38.7% of the total Kosmet Albanian population of Kosmet in 1981, and 45% in 1991. Thus, in 1981, over one third and, in 1991, almost one half of the Kosmet Albanians lived in „their“ ethnically pure municipalities, with two of these municipalities (Glogovac and Opolje) being exclusively populated by Kosmet Albanians in 1991.

### INSTEAD OF A CONCLUSION

The numbers speak for themselves. A more refined method of analysis would probably only stylize the facts. Nevertheless, there remains a need to examine the phenomenon of the ethnic cleansing of the Serbs from Kosovo and Metohia from a comparative (historical) perspective. This was done by M. Bozinovich in his work *Kosovo Population and the Evolution of the Serbian Minority*. His findings are summarized in the following diagram:



## KOSOVO AND METOHIA: ETNODEMOGRAPHIC CHANGES FROM THE END OF WORLD WAR II TO 1991

### Summary

The purpose of this paper is to determine the overall scale of the ethnodemographic changes that took place in Kosovo and Metohia (Kosmet) during the period of communist rule in Yugoslavia, as well as to spatially locate these changes and quantify them at the municipality and settlement level.

The dynamics and the structure of the changes in the national character of this province – its radical Albanization and de-Serbization – represent a drastic example of ethnic cleansing: just in the period between 1961 and 1981, 42.2% of all Kosmet Serbs and 63.3% of Serbs who declare themselves as Montenegrins emigrated from Kosovo and Metohia.

This ethnic cleansing of the Serbs was caused as much by ideological motives as it was by strong anti-Serbian national and state interests. Under the influence of the Comintern (its Resolution on the Yugoslav Question was brought in 1926), the Communist Party of Yugoslavia (CPY) moved from a critique of the *Serbian bourgeoisie* as “hegemonistic”, to a critique of the *Serbian nation* as the ruling and oppressive one... The CPY held that the communists in “Serbia itself, where the base of the hegemonistic regime was located, while recognizing the open right to secession and the right to armed rebellion against national oppression, and while preaching and providing systematic help to the movements of the oppressed nations” should also fight against the “imperialist” policy of state and national unity. The expulsion of the Serbs, the ethnic Albanians demographic explosion (during the 1970s and 1980s, ethnic /or Kosmet/ Albanians accounted for about 85% of the overall population increase in the Republic of Serbia), and the immigration of Albanians from Albania (during and after WW II, with the latest wave coming after 1999) can be seen both as the causes and the results of Kosmet Albanians secessionism. The Communist regime of the so-called Second Yugoslavia since 1945 systematically supported this secessionism. At the same time, although they didn’t support it directly, Serb members of the regime certainly tolerated it.

The Kosmet problem has taken on such a large scale because it was a taboo theme for decades, and it is now shaking the foundations of the Serbian state today, endangering its very existence.

## Key words

Kosovo and Metohia, ethnic cleansing of the Serbs, 1945–1991, communist ideology

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KOSOVO AND METOHIA  
AS A *PAR EXCELLENCE*  
PARADOXICAL STRATEGIC QUESTION



## HOW MUCH PLURALISM CAN DEMOCRACY WITHSTAND?

One of the most important (existential) questions in contemporary pluralist democracies, most pregnantly asked by the prominent Austrian political philosopher Peter Graf Kielmansegg, is: “How much pluralism can democracy withstand?” According to him, it is “necessary... to differentiate between at least three types of pluralism: pluralism of interests, pluralism of values, and pluralism of identities.

- ◆ Pluralism of *interests* deals with the issue of how to (re)distribute divisible assets;

- ◆ Pluralism of *values* deals with the question of which values to accept as valid;

- ◆ Pluralism of *identities* deals with a question whom the word ‘we’ includes; “Whom do ‘I’ constitute a community with?” [Kielmansegg 1991: 30–40].

Kielmansegg is of the opinion that “democracy can withstand a substantial amount of pluralism of interests; that it has difficulties with pluralism of values, while it has the greatest problem with pluralism of identities.”<sup>1</sup>

For the Serbs, the Kosovo Issue has for centuries stood “at the very foundations of [their] identity” [Пипер 2017: 281–283]. One’s answer to that pre-

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1 “Why is that so? Where divisible assets and goods are concerned, there is a possibility for agreement and compromise. The rules of the democratic political process are relatively suitable for reaching such agreements. Where values are concerned, however, there are no like prospects. Where values clash, decisions must follow the ‘either...or’ imperative, they cannot travel the comfortable road of the ‘like this... like that’ solution. Values, on the other hand, have a different, more existential meaning for people than interests do; because of that, the forming of their space of tolerance in this area is much more difficult. Finally, the pluralism of identities means that the consciousness of the ‘we’ is missing. This questions the readiness of all to accept the common rules of the game as an obligation both for us and the others in the case of defeat. Thus, democratic consensus is threatened at its very core from the outset.” [Kielmansegg 1991: 39].

requisite either lifts him up or brings him down<sup>2</sup>. These who try to make deals concerning it, or do actually make them, will not fare well<sup>3</sup>.

## GLOBAL CONTEXT 1: QUANTITY VS. QUALITY

At the end of the past century most western and east European (*perestroyka*, transition-era) intellectuals believed that instead of a *Hungtintonian clash of civilizations*, the time of universalization, the *era of global civilization*, was coming. This is the period when global power-mongers also intensified their work on a specific kind of historical engineering meant to create an uncontested world order with “new rules of the ‘game’” which would guarantee the survival and expansion of the global civilization under the sign of Capital<sup>4</sup>. According to them, no authentic policy and culture should stand in the way of transnational capital’s economic expansion. Not even at the cost of this civilization’s self-destruction, as the global, turbo-capitalist civilization battles against everything that is, in its essence *singular*, authentic – against nation and national states, against law, science, upbringing and education, against family, religion, tradition in general, and even against work itself. Or, to put it simply, it seems to be innately against quality and in favor of quan-

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- 2 As the Bishop of Ras-Prizren and Kosovo-Metohia Diocese, Teodosije, put it: “For some, Kosovo and Metohia can at the same time be a blessing as well as damnation. Those who live aware of that blessing, who cherish and uphold it, will be happy to have safeguarded what our ancestors have bequeathed us as a token of our choice of the Heavenly Kingdom over the kingdom of this world, which is transient.” [https://kossev.info/vladika-teodosije-kosovo-i-Metohia-moze-nekom-bit-blagoslov-ili-prokletstvo/]
- 3 “For those, though, who will make bargains with their inheritance even at the cost of the people’s ruin this blessing will become their damnation, staying with them during their lifetime in this world, as it will for all eternity. Their name will be written down among the names of those who were destroyers of the Living Church, perjurers and deceivers, whose hypocritical words say one thing but mean something else, who work clandestinely, so as to hide their shame. But may the Lord grant them reason and repentance so that they might turn to Him and understand that their inheritance is not just land, but this part of the heaven on earth, our sacred Kosovo and Metohia, which had for centuries unified our devout people wherever they lived.” [http://www.eparhija-prizren.com/sr/episkop-rasko-prizrenski-i-kosovo-metohijski-g-teodosije]
- 4 “We rush head on into destruction created by the market system which *transferred the problems from society into the sphere of the market*. For this reason the interests of the capital, transnational corporations and financial institutions in the U.S. are placed above the interests of the people.” With these words Noam Chomsky recently warned his fellow countrymen that the U.S. is facing a collapse “because of neoliberalism and the market economy”. [Chomsky 2018].

tity! It disdains value and upholds usefulness, it stands against creativity and favors imitation and simulation, it strives for uniformity and has little use for diversity, the bleakness and dullness of mediocrity disturb it none, as it reaches for maximization of quantity and speed...<sup>5</sup>

## GLOBAL CONTEXT 2: MILITARIZATON (MIGHT VS. RIGHT)

Carl Schmitt used to claim that *war is a way out of the crisis*: the way out of a small crisis being a small war, and a big war out of a big one! Creating crisis hotspots and launching *no-win wars* and *wars by proxy* became, after the Korean War of the mid-20<sup>th</sup> century (the first such war), a routine approach by the global potentates. Apparently, it was also a necessity, because the structure of production and consumption, in the U.S. for example, changed drastically in favor of the military-industrial complex, so that intensifying economic activity to overcome a crisis implies an increase in the production of tools, weapons and ammunition. Moreover, demand too can go up only if a new war is launched. This is where the profits are biggest, and the returns quickest. In other words, in the economies structured in such a way, *investments in wars are the most profitable ones*<sup>6</sup>.

Terms used in the contemporary economic debates are to a great extent defined by the semantic legacy of previous debates. In addition, economic terminology shows a noticeable influence of other, so-called exact sciences: above all physics (“equilibrium”, “oscillatory trends”...), then biology (“circular flow” or “circulation”, “growth”, “development”, “seed capital”), medicine

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5 In fact: “Victory and doing business are its sole imperatives. The tiniest devotion, feeling, law, love, emotion, religion – everything that can endanger the total freedom [of choice, added by Č.O.] is a concession to competition, the stumbling stone, and a sign of defeat. Anything goes, but only once the economic victory is ensured, only once the prevailing [of the capital, added by Č.O] becomes certain,” writes Roberto Saviano in his novel *Gomorrah* [Saviano 2010].

6 How this impacts the job market? In addition to increased demand for tools, weapons and ammunition, the demand for mercenaries (“Janissaries”), prostitutes and both willing and unwilling organ donors is also on the rise. But, given that for a long time now we have been living in a post-heroic world, all this is considered “normal,” and those who become successful in the field of such “new” services, become the heroes of the “New Reality” (such for example being dr Bernard Kouchner, the head of one of global organizations trafficking in human organs, who is frequently in conflict of interest with NATO’s organizational units engaged in similar “missions”).

(“shock therapy”) and, increasingly, military science (“economic sanctions”, “economic security”, “economic war”, “hybrid war”, “cost-benefit” analysis of strategic migrations as a weapon of war, “strategic management”... etc.). This semantic militarization of *economics* is undoubtedly a consequence of the *economy’s* militarization. Many criticize the use of military terms in the economic sphere considering such militarization as an expression of neo-mercantilism and economic nationalism; according to them, this unavoidably leads to conflicts. Because the real and “surreal” – speculative, or better still, scheming economies based on military and political power instead on economic efficiency – permanently disturb the balance of capital and production necessary for sustainable economic and overall development.

### GLOBAL CONTEXT 3: COMMERCIALIZATION AND CORPORATIZATION (SKILL VS. VIRTUE)

At the same time, the tendencies of commercialization and corporatization are becoming ever stronger. Everything is for sale, including people, their organs, even their souls. Local and regional markets are becoming part of global flea market of lost souls. The mainstream neoliberal doctrine legitimizes this by citing freedom of choice in the only true, worldwide labor market: of people who, without remorse, “honestly” work for those who pay more. Moreover, this market is becoming overcrowded: supply is growing exponentially, that going hand in hand with the general trend of massive impoverishment. That is, most countries of the Second World have descended into the Third World owing to transitional plunder, whereas the gap between the traditionally developed countries and the underdeveloped ones is deepening – with the price of treason, true to theory, plummeting<sup>7</sup>.

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<sup>7</sup> What used to be a common opinion on the issue? “A nation can survive its fools, even its overly ambitious men. But it cannot survive treason from within. An enemy at the gates is less formidable, for he is known and carries his banner openly, while a traitor moves inside the city walls freely, his sly whispers rustling through all the alleys, reaching [...] the very halls of the government. For the traitor appears not a traitor; he speaks in accents familiar to his victims; his face and apparel are similar to theirs, he appeals to the baseness that lies deep in the hearts of all men. The traitor rots the soul of the nation, he works secretly and unknown in the night to undermine the pillars of the city, he infects the body politic so that it can no longer resist. A murderer is less to be feared – the traitor is the plague!” wrote Cicero two thousand years ago. What has changed since? But, following the end of



In this case as well, maximum quantity and maximum speed are the supreme (and only) values, replacing every skill and virtue. *Die Schnellen fressen die Langsamen* (“The swift gobble up the slow”) wrote Heike Leitschuh-Fechte in a 1997 article entitled “One day we’ll all be The First,” defining the essence of (turbo)capitalist ideology. In other words, *more and ever more, faster and faster!* That is the only criterion of success. And in order to be successful, we have to be *incorporated*.

Governments have become corporations, parties have become corporations, hospitals are corporations as well; corporations are schools, scientific and research institutes, even the Church; armies have become professional, i.e. paid (consisting of soldiers who kill for *soldi*, as Italians call money)... A corporation’s goal is *maximum profit*. In other words, the school no longer educates and forms, scientists do not search for the truth, soldiers do not defend their country, politicians do not take care of public good (statesmanship being derided as an atavism), priests do not attend to the believers’ souls, the economy has taken the place of religion, in the business sector everyone is rushing to grab as much as possible. The dominant tendencies in the world are replacing culture with entertainment (in Slavic languages, that word is closely related to “oblivion”), training replaces education, *mind changing* persuasion techniques (Mind Genomics) suppress and even abolish science, while the political scene increasingly resembles a circus or a cattle market. By such discrediting, the *autonomy* of certain social spheres (politics, science, health care, education, sports, media...) is being lost, their quality degraded, their authenticity and *raison d’être* on the way to disappear. More and more people are becoming reduced to “individuals”, their human worth limited to being mere taxpayers and consumers – whereas the number of producers available for taxation and able to use their earnings to create demand on the consumer market is dwindling. Budget revenues are dropping, as is the demand – all adding up to the reason why *crises* occur.

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the Second World War much has changed, as can be seen from the example of England, as documented in *The Meaning of Treason* by the unsurpassable Rebecca West [Бест 2013]. See also: [Чворовић 2006].

## STABILOCRAZY AND THE NEW IMPERIALISM: CRISIS AS A PERMANENT SITUATION

What are our chances to see the end of the world economic crisis in our lifetime? Not very great, since it has become a permanent situation that one has to get used to. (For example, this is what TV reality shows are supposed to train us for.) The post-modern ideology relativizes everything, equalizing all values and, by deconstructing the present as well as the past, prepares us all for a post-human – or posthumous – future.

Meanwhile we are being incessantly told that peace and stability should be our ultimate goals. In this context, “stability” – a Newspeak euphemism for “control” (even surveillance!<sup>8</sup>) – actually means that “everything is under control”, i.e. under *our*<sup>9</sup> control, which is *the essence of both old and new imperialism*. Under the old imperialism control was executed directly – through application of firm power such as, for instance, a ground invasion – while in the case of the new, so-called economic imperialism, it assumes a subtler form of “soft” and smart power, as defined by Joseph Nye. We use the term “economic imperialism” when one country controls another by using its resources for the purpose. The controller ideologically *justifies* that by claiming cost-benefits for the victim-country which, therefore, “accepts” such control. Moreover, according to such argumentation, the victim-country can always say “no”, there being no long-term solution, i.e. no permanent economic imperialism, since the domination can last only as long as the resources needed for it are available. The solution, from the point of view of the imperial power’s interests, is to make the victim-country dependent on the “controller’s” resources by, for example, pushing it into *indebtedness*<sup>10</sup> – a classical occupation being much riskier and costlier.

### VAROUFAKIS: THE KOSOVIZATION OF EUROPE

Before our very eyes the “old order” is crumbling or already lies in ruins under the forces of arrogance which see themselves as “the creators of history”

8 See [Zuboff 2019].

9 Who are *ours*, and who *stabilocrats* – see [Bieber 2018: 176–185].

10 The case of the Greek debt bondage is indicative and paradigmatic. Yanis Varoufakis, a former Greek finance minister, summarized the problem on February 6, 2015 in a single sentence: “The confused and muddled political actors, *negating the systemic nature of the crisis*, follow a policy similar to carpet bombing proud European nations in order to salvage them.”

as they cynically engage in the “deconstruction” experiment. With burgeoning loss of sovereignty, that is, with the historical loss of national subjectivity, the less numerous and economically less powerful nations are becoming an object (“guinea pigs”) of the “New Order”<sup>11</sup>: “The policies of Europe as it now stands lead to fragmentation. The worst-case scenario of the crisis would be the *Kosovization* of Greece, Spain, Ireland, Portugal, and Italy, i.e. their turning into protectorates which use the Euro, are ruled by European commissioners and local kleptocrats, and whose youth is their only relevant export asset.”<sup>12</sup>

### HOFBAUER: EXPERIMENT KOSOVO – THE RETURN OF COLONIALISM

Hannes Hofbauer’s book *Experiment Kosovo: The Return of Colonialism (Experiment Kosovo: Die Rückkehr des Kolonialismus)* [Hofbauer 2008, henceforth referred to as EK] is an intellectually honest attempt to understand the current Kosovo situation within a wider historical and international context. The author is not siding with any party to the conflict, nor is he favoring the current “international” rule, neither whose *Weltanschauung* does he share. He rightfully perceives it not as a genuine ideological belief, but as a cover for extremely pragmatic and aggressive goals. To understand what has led to the creation of the current state of affairs in Kosovo and Metohia – a Mafia state thriving under the thin layer of a colonial, military, police, and political administration – it is necessary to understand its background, i.e. the historical and political context of the Kosovo region and of its immediate surroundings, while not neglecting the wider, geopolitical context [Павић 2009].

Commendably, Hofbauer allows the facts to speak for themselves, which is reason enough to quote him without major interventions.

As an economic and social historian, he is critical of the European Project and examines the Balkans specifically, as a region wherein an imperial policy was pursued by Austro-Hungary in the past and by the EU and the

11 The use value of the term „new world order“ (or „globalization“) seems to be rapidly „evaporating“; therefore Claus Schwab (and other Davos ideologues) are trying to replace it with new one: *Great Reset* [Schwab and Malleret 2020].

12 This is how at the end of 2014 Varoufakis described Europe’s and Greece’s post-crisis development would look like unless a radical way out of the gravest financial and economic crisis after WWII is found.

U.S. today. The consequences of such approach are tragic: a major war in former Yugoslavia, hundreds of thousands of lives lost, millions of displaced persons, enormous material destruction, the final blow being the attack on the Federal Republic of Yugoslavia and the forcible separation of Kosovo and Metohia from the sovereign state of Serbia in 2008. Then, “through a unilateral declaration of Kosovo’s independence, the *international law* was violated and substituted by the *rights of man* (human rights). The international law is quite clear, while the rights of man can be interpreted in many ways. They are a reflection of economic and military power. What had been resolved in 1945, was again geopolitically reshuffled”<sup>13</sup> i.e. “the bombing of Yugoslavia without a U.N. mandate, initiated the violation of international law, while the recognition of the unilaterally declared independence of Kosovo marked an end of the epoch that began in 1945.” [An interview with Hofbauer at [www.blic.rs/politika.php?id=79495](http://www.blic.rs/politika.php?id=79495)]

In other words, the main thesis of *Experiment Kosovo* is the U.S.’s and EU’s new imperial policy, primarily reflected in NATO’s activities. According to Hofbauer, however, Kosovo is not the first but the second stage in such new installation of imperial rule on the territory of former Yugoslavia, the first occurring in Bosnia and Herzegovina. In both cases a similar scenario was employed: military engagement came first, followed by the introduction of a unique type of rule over the occupied territories: they were subjected to a specific political, social and economic *experiment* under *merged* “executive and administrative branches of government” which *only as separated powers* constitute “the essence of democracy in the West”. [An interview with Hofbauer at [www.blic.rs/politika.php?id=79495](http://www.blic.rs/politika.php?id=79495)]. *Double standards* were obviously employed – ones for “civilized” Western democracies, and very different ones for the “semiliterate belligerent savages” in the Balkans, who have to be ruled by an iron fist<sup>14</sup>.

13 “By this decision (to build its base Bondsteel in Kosovo and Metohia) [the U.S. has shown that it] is planning its military presence in Kosovo in the decades to come and has openly demonstrated that [this action] is a final point of a geopolitical strategy, long in preparation, that should correct the division of Europe into spheres of influence agreed at the beginning of 1945 at the Yalta Conference.” From the 2000 letter sent by Willi Wimer to German Chancellor Gerhard Schröder, available at [http://starisajt.nspm.rs/PrenetiTekstovi/arhivanspm/2008\\_vimer1.htm](http://starisajt.nspm.rs/PrenetiTekstovi/arhivanspm/2008_vimer1.htm), published also in the weekly *NIN* on February 8, 2007.

14 See [Kuper 2007]. The EU mediator in the dialogue between Belgrade and Priština, Robert Cooper, is a British diplomat and senior intelligence officer, security expert, the head of the Foreign Office Service for Political Planning, Deputy Secretary of Defense and Overseas Affairs, a person close to Tony Blair, and the author of the doctrine of the “new liberal

The great powers will take advantage of the latest Balkan ethnic turmoil to further their own interests. They have been pulling the strings of all major events in the region since the end of the 19<sup>th</sup> and the beginning of the 20<sup>th</sup> century – including the 1912–1913 Balkan Wars, the 1912 creation of Albania, the 1918 creation of the Kingdom of the Serbs, Croats and the Slovenes (from 1929, the Kingdom of Yugoslavia) and the 1943 revolutionary formation of the Federal People’s Republic of Yugoslavia... For, according to Michael Weithmann cited by Hofbauer [EK: 45], “all Balkan states have always been the *objects* and not the *subjects* of big policies,” i.e. “not one of the ethnic problems has ever been solved. The borders drawn there appear to be a part of a system bound to create ever new hostilities so that the great powers, depending on the situation, could keep the Balkan people cornered and use their discord for their own goals.” [Weithmann 1997: 327]

After describing the past of Kosovo and its inter-ethnic relations from the 14<sup>th</sup> century until the forming of the first and the second Yugoslavia, Hofbauer proceeds to consider the reasons for the destruction of the Socialist Federal Republic of Yugoslavia, stating that “the Yugoslav catastrophe was generated from within and from the outside.” [EK: 76] He, however, immediately recalls that without understanding world economic relations and dependences, the dissolution of this multi-ethnic state cannot be fully comprehended. For, after the collapse of communism, a *redistribution* of assets and *resources* was to be made, and the territory of the Balkans divided into the exclusive *zones of interest* of certain countries and big capital. In the light of this, “the division into nations and ethnic communities was not only of assistance to, but a precondition for achieving these goals. For, *social stratification unavoidably leads to class struggle during the division of the existing pie, while national struggle, on the contrary, leads only to the division of the market.*” [EK: 77] In short, *disintegration was necessary* for new economic integration, to enable “an unhindered circulation of goods, people, ideas and capital.”<sup>15</sup> But, even a mere glance at the winners in the long-lasting clash reveals everything: *multinational capital* and *local elites* emerged as the only profiteers.

That is, during the (world) economic crisis of the late 1970s and the early 1980s, the Yugoslav economy began rapidly to sink under the heavy burden of foreign debts and high inflation. Jeffrey Sachs, an IMF expert for curing such

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imperialism” and the “new liberal empire” to be installed in the Yugoslav territory. More on him, his ideas and activities in: [Кљацић 2011].

15 “Disintegration” followed by “integration” follows the alchemic formula of *solve et coagula*.

economic woes, proposed a plan to establish “the dinar’s convertibility in the country through a social shock therapy by depriving state money of economic life, thus putting to death ‘the Yugoslav socialist self-management.’” [EK: 79].

Hofbauer summarizes the fatal formula guiding the West in resolving the problem that resulted in the tragedy of the Yugoslav peoples in a single slogan: “Solidarity with the national right to self-determination.” Thus, radical demands by the suddenly “nationally and democratically aware” Slovenes, Croats, Muslims and, eventually, Albanians, directed against the Yugoslav federation, found strong supporters and allies in Germany, Austria, France, and U.S. The reason why the West’s politicians, media, leading thinkers and theoreticians interpreted national self-determination as social emancipation can be explained as “a purely colonial aspiration, a colonial call.” In fact, Hofbauer believes that “*the war was premeditated and deliberately provoked.*”<sup>16</sup> The only element missing was a suitable “philosophical” justification, which was found in a demand that human rights be respected, and followed by military interventions to protect them. These rights thus served to ideologically justify all military actions dubbed “humanitarian interventions.” It is clear today that something entirely opposite lay behind this missionary logic of universally applicable “human rights”. The actual goal was to impose a form of material and social reproduction with “freedom” as its center, but such “liberty” boiled down to license of trade. Capital, i.e. the logic of capitalist expansion, was both the *causa efficiens* and the *causa finalis* of the events that took place. This logic of capitalist relations was camouflaged by the West’s advocacy of “universal values” and “human rights”, as *a universal world religion of the market and the free flow of people, ideas and goods* inseparable from it.

Hofbauer takes a clear stand concerning the war the West launched against the Federal Republic of Yugoslavia under the pretext of protecting human rights and preventing a humanitarian catastrophe: “This undeclared NATO war against Yugoslavia was an aggression lacking all legal basis and acceptable reason. It violated all norms of international law, all provisions

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16 Writing about what was behind Yugoslavia’s dissolution, Hofbauer clearly states: “The war, in fact, was planned in advance, it was provoked deliberately. Foreign forces believed in that solution more than the local nationalists did. They even adopted a philosophical justification for it: the rights of man, i.e. their violation... The vagueness and elasticity of the concept of human rights provided for its use depending on political expediency, so it served to interpret what is good and what is not as one pleased. Debates *about values* that were held in connection with this not only did not allow any discussion *about interests*, but prevented it.” [EK: 86]

of the U.N. Charter, the NATO statute, and the constitutions of all member states, especially the German Constitution.” [EK: 118].

In the night of June 9, 1999 an agreement was signed between the FRY and NATO in Kumanovo, (Northern) Macedonia, on the cessation of hostilities, after which, based on the Agreement’s provisions and U.N. Security Council Resolution 1244, Kosovo was placed under the administration of the U.N., i.e. KFOR (“Kosovo Force”), whose largest contingent consisted of NATO troops. The Serb province of Kosovo was then divided into occupation zones under the jurisdiction of the U.S., German, Italian, British and French forces, and a U.N. civilian mission, UNMIK, was installed. According to the UNHCR [EK: 123], its population “protected” by Western armies, in the months that followed an Albanian pogrom of non-Albanians took place: innumerable acts of pillage, arson, murder, rape, and abduction were committed, reaching a climax in the expulsion (“ethnic cleansing”) of some 250,000 Serbs, Muslim Slavs, Roma, Egyptians, Ashkalis (the last three categories being self-designations of the minorities previously called “Gypsies”). To illustrate how the operation was conducted, Hofbauer quotes a former Albanian teacher bragging to a reporter of a French news agency: “We went from home to home, giving the Serbs 15 to 30 minutes to disappear.”<sup>17</sup> A U.N. civilian administration was introduced in Serbia’s province which was gradually transformed into a protectorate with “supervised independence”. The UNMIK, established immediately after the war, rested on four pillars: as Hofbauer put it, it is “a state in totality” [EK: 140], because it carries out the executive, judicial, police, and administrative tasks necessary to “build democracy and its institutions.” Over this structure presides the SRSG – a Special Representative of the U.N. Secretary General with unlimited powers.

After “Kosovo” (its full title being “Kosovo *and* Metohia” /*metoh* = Orthodox Christian Church Property/) illegally declared its independence, the Eulex mission replaced UNMIK. According to Hofbauer, in addition there are some 4,500 non-governmental organizations holding various training courses and allegedly building institutions and democracy, while “protecting human rights”... The planetary bible of the free market was put to work as soon as the war ended. Namely, the High Representative Bernard Kouchner seized all movable and immovable property of the Federal Republic of Yugo-

17 The fact that after the entry of NATO forces in the province, the Jewish Municipality in Priština no longer exists testifies to the true nature of the “new” Kosovo as a multi-ethnic community, which was the proclaimed objective of the war.

slavia in Kosovo. Privatization followed, under the command of the Kosovo Trust Agency and ending in the Heist of the Century<sup>18</sup> from which only mafia structures and the foreign factor<sup>19</sup> profited [EK: 212]. It should also be kept in mind that while poverty and over 60 percent unemployment reign supreme in Kosovo, the international elites enjoy enormous income in exchange for their efforts to establish “peace and democracy.” The economy practically does not exist<sup>20</sup>, except for the black market<sup>21</sup> ruled by local mafia clans<sup>22</sup>.

To such Kosovo, with its economy devastated and its society in shambles, its foreign tutors granted independence in February 2008. Violating international law, they forcibly took away a part of the sovereign state of Serbia under the excuse that it was a case *sui generis* with unforeseeable consequences

18 In his work “Socially Owned Companies in Kosovo and Metohia in 1990” (a part of the collection of papers titled *The Kosovo Vertical or a Neocolonial Horizontal* [КВилиНХ 2019: 140] Miodrag Skulić asks a relevant question: What is the ownership structure of the Kosovo economy today?

19 According to Czech media, “The former U.S. Secretary of State Madeleine Albright made 20 million Euros from the sale of Kosovo Telekom”. The Prague-based portal *Parlamentarni listy* reported that she was guided solely by personal interests when advocating the bombing of the FRY in 1999, and the creation of so-called independent Kosovo. The portal also said that after the international administration in Kosovo and Metohia was instituted, and owing to her close ties to Kosovo Liberation Army leaders, most of all Hashim Thaçi, she privatized the Kosovo telephone company IPKO, which her company later sold to the Telekom Slovenija. [[https://www.espreso.rs/vesti/drustvo/362957/olbrajtova-debelo-zaradila-od-nezavisnog-kosova-zgrnula-milione-cifra-je--vrtoglava?utm\\_medium=push&utm\\_source=pushpushgo&utm\\_campaign=CampaignName](https://www.espreso.rs/vesti/drustvo/362957/olbrajtova-debelo-zaradila-od-nezavisnog-kosova-zgrnula-milione-cifra-je--vrtoglava?utm_medium=push&utm_source=pushpushgo&utm_campaign=CampaignName)]

20 The share of [Kosovo’s] industry in GDP dropped in the 1998–2006 period from 47 percent to 17 percent. In 2006, goods worth 1.25 billion Euros were imported, while its export was worth 77 million! See [EK: 202–203]. The first part of the collection *The Kosovo Vertical or a Neocolonial Horizontal* (pp. 29–88) contains two seminal (and in many elements pioneering) works that in a systematic way offer information on the demographic, economic, social and ecological changes in Kosovo in this century (Gojko Rikalović and Dejan Molnar: (Un) Success of the Euro-Atlantic State Formation Project: Demographic, Economic, Social and Ecological Changes in Kosovo and Metohia in the First Two Decades of the 21<sup>st</sup> Century: [Рикаловић and Молнар 2019: 21–62]), which deal with the scenarios of future changes in the context of Kosovo’s economic and social sustainability (Milenko Dželetović and Bojan Dimitrijević: Possible Scenarios for the Future of Kosovo and Metohia in the Context of Its Economic and Social Sustainability: [Джелетовић and Димитријевић 2019: 63–80]).

21 In 2007 the annual value of illegal deals in Kosovo reached some half a billion Euros! See [EK: 228].

22 Who has the main say in Kosovo and who actually rules it is stipulated by one of the articles of the “Kosovo Constitution” based on the Martti Ahtisaari Plan: “In the event of discord between the constitutional provisions, the laws and provisions of the Draft Agreement on the Status of Kosovo of March 26, 2007 (provisions of the Ahtisaari Plan, XX), the latter, i.e. the Ahtisaari document, shall hold precedence.”



and, by applying the ancient *divide and rule* adage, continue to determine the fate of small nations...<sup>23</sup>

“Cooperation of UNMIK and EUPT exists in all areas and at all levels. The EUPT, together with the chief of ICO PT, holds bimonthly meetings with SRSG and P/DSRGS.”<sup>24</sup> Hofbauer quotes this statement from a June 2008 communication between international administrators in Kosovo and Metohia to depict “money leakage” channels in occupied Serbian territory, i.e. to show where the numerous billions spent on “The Kosovo Experiment” end up. That is perhaps the best and the most adequate illustration of the cold neocolonial rule over that part of ancestral Serbian lands [Павић 2009]. And its essence lies in the following: “Monitored or supervised independence’ was envisaged in advance as joint action of the ruling factors which control the instruments of world-wide rule. A combination of various instruments of direct and indirect foreign governance serves as a pledge for state independence. In that respect, Kosovo/*Kosova* (Albanian version of the original Serb toponym “The Field of Blackbirds” [*Kosovo polje*]) offers ideal conditions for experimenting.”<sup>25</sup> [EK: 234] This, of course, is to be achieved with the supporting role played by the former UÇK/KLA (“Kosovo Liberation Army”) commanders, who in 1999

23 German politician Willi Wiemer, onetime vice-president of the OSCE Parliamentary Assembly and a former German deputy defense minister, included in his May 2000 letter to the then German chancellor, Gerhard Schröder, the conclusions of a security conference held shortly before in Bratislava, Slovakia, where U.S. representatives presented their reasons for bombing Yugoslavia by quoting, among other, the correction of the already mentioned “Dwight Eisenhower’s mistake” from 1945. The bombing of Yugoslavia, thus, can be seen in this light, and not as an expression of any “humanitarian” concerns: the goal was the (re)distribution of market and the integration of this part of post-Socialist Europe in a new (victorious), neoliberal, globalist economic order, and the already mentioned use of the Kosovo and Metohia case as a blueprint for future colonial expansion in other regions.

24 The EUPT stands for the European Union Planning Team for Kosovo, ICO PT is the abbreviation for the International Civilian Office, Preparation Team, and SRSG – the Special Representative of the Secretary General (of the United Nations), while DSRSG stands for the latter’s deputy.

25 “The constitution maker expresses his ‘intention for the state of Kosovo to fully participate in the process of Euro-Atlantic integrations.’” [EK: 286] It is clear that “the constitution maker,” is the so-called international community, which Hofbauer always places inside quotation marks. Also indicative are recommendations by the “International Commission on the Balkans,” which in its 2005 report proposed “independence without full sovereignty” for a Kosovo under the EU supervision, which, later on, should lead to “association, i.e. absorption” (International Commission on the Balkans, *The Balkans in Europe’s Future*, 2005, quoted in [EK” 279]). According to Hofbauer, these ambitions will not be limited to Kosovo: “‘Supervised independence’ is a seed of the New Order that in the future could be imposed on other periphery states if the dominant powers find convenient political, financial, and military means to achieve that.” [EK: 244]

“acted as NATO ground troops, and now, after changing their guerilla uniforms for civilian suits, are allowed to pose as authorities.” [EK: 6]

Hofbauer’s analysis dispels all the idealists’ illusions – if such still exist – that an “enlightened” international administration can benefit any area under its “care”. “A colonial administration loves abbreviations,” writes Hofbauer [EK: 276], “but behind these anaesthetizing acronyms hides a veritable hell on earth of cynical, colonial pillage<sup>26</sup>, of open looting of Serb property by the ‘International Community’ and in favor of Western big capital<sup>27</sup> – and of the omnipresent Albanian mafia which pervades all nooks and crannies of the Kosovo Albanian society.”<sup>28</sup>

Hofbauer particularly points out that given the text of U.N. Resolution 1244, which “guarantees territorial inviolability of the FRY... *there was, in fact, nothing to negotiate about*” [EK: 236], and wonders “why has Serbia agreed to participate in this obviously premeditated game” [EK: 239] of which the results were: “From the viewpoint of international law, the principles most clearly sacrificed by the establishment of a new order in the Balkans are, in addition to the U.N. Charter and various U.N. resolutions, the final acts of the Helsinki Conference on European Security and Cooperation.” He stresses, once again, that “negotiations on the status of Kosovo were held contrary to all the principles and in violation of all the cited points of the Helsinki Conference” [EK: 242–243]. Still, Russia’s and China’s firm rejection of the unilaterally declared Kosovo independence created “major difficulties for the Western ‘international community of states,’” because “as long as Resolution 1244 exists, there will be two realities in the world community” [EK: 256].

In agreeing with this appraisal Hofbauer believes that his book “strikes at the very center... of the colonial administration in Kosovo,” and that it

26 The seizure of Kosovo’s natural resources by foreign capital... has been planned in every detail and much in advance.” [EK: 217] On the other hand, “trade unions in Kosovo are perceived as insignificant non-governmental organizations: ‘Our views are simply ignored, they pass, so to say, unnoticed,’” Hofbauer was told by Haxhi Arifi, chairman of the Association of Independent Trade Unions in occupied Kosovo [EK: 216].

27 “With incomes tenfold higher than the locals can earn, people from non-governmental organizations [so-called MANGOs, i.e. Mafia NGOs] have become a special stratum outside the society they allegedly want to help” [EK:155–156]. In addition, “Senior UNMIK officials and EULEX personnel are paid 5,000 Euros or more per month” [EK: 231].

28 “The only branch of the economy that is flourishing is grey economy and the illegal sector – i.e. the mafia economy” [EK: 200], while the title of an article in *Frankfurter Allgemeine Zeitung* on March 16, 2008, says: “The crime actually pays off. With the declaration of Kosovo’s independence, organized crime has obtained a state of its own” [EK: 226].

offers a solution for the future, wherein the focus should be on “potential joint activities in economic development” [EK: 298]<sup>29</sup>.

### IS THERE HOPE?

Does the bleak landscape of the world as it is offer any hope for difference and diversity, for universal principles and rules, for common values, to the small, the weak and the poor, to “the gifted but out of luck”?

*Pessimists* do not discern it (as Wilde’s weaver, describing the human condition, puts it, “In war, the strong make slaves of the weak, and in peace the rich make slaves of the poor”), while scientists and techno-bureaucrats, shining with *optimism*, continue to preach uncontested faith in an inevitable bright future.

And what about the *realists*? They roll up their sleeves!

### CAN SMALLER COUNTRIES INFLUENCE THEIR (ECONOMIC) FATE AT ALL?

In the economic science (understood in positivistic terms as exact) it is generally accepted that *the size* of a country is measured by the number of its inhabitants, its territorial extension, and its aggregate economic power. But, in addition to such *quantitative* indicators of a country’s (nation’s) size, the *qualitative* ones – though difficult or impossible to measure – should also be considered for a more complete and deeper insight. They can be determined by a quality analysis through “spiritual” scientific disciplines (Diltay), which emphasize the *understanding* of the purpose and the significance of processes and manifestations, and pays less attention to their *explanation* – which is the primary task of science as traditionally understood in the West. Thus, cultural, social, economic, political, and geographic particularities of various countries and peoples are interpreted

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29 This position could be considered valid, were it not for the legacy of the past 60 years which irrefutably reveals that not even Josip Broz Tito’s policy of “brotherhood and unity of nations and nationalities” – backed by considerable financial funds – could stop the Kosovo Albanians’ aspirations to secede, or their mass intolerance of all non-Albanians. For, as Hofbauer puts it, “The religion of Albanians is ‘Albanianhood.’” [EK: 187]

from a *historic perspective*. *Contextualization in space and time*, in this sense, analyzes the character and quality of relations between countries, their value systems, their aspirations and ambitions, their strategic outlook and actions or a lack of them (i.e. allowing for a free course of events, spontaneity, going along with the forces of nature, or with the “logic of history,” submitting to dictates<sup>30</sup> etc...)

#### IVKOVIĆ’S FREEDOM-SLAVERY SCALE

Relevant is Vladan Ivković’s attempt to offer a typology of relations between countries (nations, i.e. their elites) on a *freedom–slavery* scale: “If we were to categorize European nations as political communities by ambition and by roughly outlined political mentality, I would propose the following four basic categories: the slaves, the dependents, the independents and the conquerors. Falling into these categories, of course, would be conditioned by historical periods and observation during several epochs, and most nations would be found to belong to more than one category.”

[...] Therefore, “the basis of this categorization is *ambition*: [...] there are nations which are not doing their best, are not capable, or think they have no right to pull themselves out of the claws of subservience to other nations and empires.

There are those who love to rely on the might of others, who think something is owed to them, but seek a higher power to provide them with what they seek [...] or cannot gain what they want without reliance on protector forces. There are those who know that freedom or material gain belongs to them and are ready to organize into a defensive order even if their country, due to geopolitical conditions, is not fully capable of making decisions completely independently – if this is possible anywhere and at all. [...]

30 “The study [*Geopolitical Constraints on Development Policies of Small Countries*] ends up with a recommendation that small countries should aspire to fit themselves into the interests and policies of the great powers, to invest equally in choosing suitable allies, as well as to pragmatically adjust their pretensions, and – depending on given circumstances – even to follow their orders.” [Madžar 2017: 11]; See also [Madžar 1979] and [Madžar 2013]. As a counterweight to this servile attempt at mind-changing, see: Slobodan Antonić’s papers “Serbia’s road toward the status of a colony” [Антонић 20017a] and “Self-occupation in culture” [Антонић 2017b]. See also: [Томаш 2016], [Оčić 1996, 1998, 2017] and [Senior and Singer 2011].

The strongest are those nations who snatch and grab regardless of whether they think that belongs to them or not, i.e. those who think that everything in their possession belongs to them, including that which they still haven't laid their hands on. [...]

To lack the freedom-loving ambition, however, is not the same as to lack material stability. There are nation-slaves who can say that from the material point of view they live quite well. [...]

Conqueror nations have to know how to build civilization based on sustainable administration. Slave nations, on the other hand, have to be of use to the conquerors in order to survive. Dependent nations are best recognized by their aspiration toward progress in one sense, for instance, material, because of which they sacrifice their independence and their freedom to fight for non-material interests. Independent nations are always *on the verge of war*; they cannot survive without fighting, wars against them are always waged because they are *the target*. [...] This ['experimental'] classification is one of the paradigms within a broad geopolitical matrix built on historical experience and the role and potential of individual European nations. With the passage of time, nations as nominal political communities may *change their capacities, appetites, degrees and the form of organization, as well as the quantity of control over their elites*. These changes, created from within and from the outside, position and reposition nations inside geopolitical dynamics of might. Thus, the basic elements of mentality of historical nations and the knowledge of them, including self-knowledge, are the key pillars in building a strategy that is to serve either as an obstacle and enemy to such elements, or as their ally or vassal" [Ивковић 2017].

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All this forms a field of research for a new scientific discipline – *strategology*<sup>31</sup>.

## STRATEGOLOGY: ORIGINS AND PURPOSE

“Strategology... attempts to understand the strategies of all participants in the game of their mutual cooperation and/or competition. It considers conflicts equally possible as is eventual cooperation between various subjects. It does not accept a morally suitable strategy, but exclusively the one that was

31 As an insight into an attempt to formulate a contemporary Serbian strategology, see [Оцић 2015, 2017] and [МРСР 2014].

chosen – either well or wrongly – without any guarantee, and with arguments and chances of failing and losing as much as succeeding.

Strategology offers the most promising chance to those actors who grasp, with the least bias, the rules of the game of which the outcome cannot be fully comprehended. Those blinded by their own ideology have significantly smaller chances to win.” [Konrad 1999: 61].

## THE NATURE OF STRATEGY

Since there are so many differing opinions on strategy, instead of reviewing all its definitions or searching for a unified designation, it seems more appropriate to try to identify *various strategic issues* and the *perspectives of their resolution*.

For, sundry strategic perspectives, that is, points of view, lay different emphasis on the significance of contrasting strategic tensions. It is customary, therefore, to first hear *all pro* and *con* arguments, and then proceed to resolve the tensions. Thus, there are four general approaches to determining and interpreting a strategic tension. It may be perceived in several ways:

1. As a *riddle*. A riddle comes up in an attempt to solve a problem with a single, optimal solution. Strategic tension can arise in this form, its cause usually stemming from being baffled by the riddle, and not from the riddle's inherent, contradictory premises;

2. As a *dilemma*. A dilemma appears when facing a problem with *two possible solutions*. The most well-known is the “prisoner's dilemma”<sup>32</sup>. All those who face an *either-or* problem face a dilemma, each solution having its advantages and disadvantages – none, however, being clearly superior to the other. Strategic tensions may also take the form of a dilemma. In such cases, the strategist has to choose one of the options, for example, *either* to cooperate (“cooperative strategy”) *or* to compete (“competing” or “conflict strategy”);

3. As a *compensatory relation*. A compensatory relation (or “trade-off”) is a situation with *many possible solutions*, each representing a different ratio of conflicting pressures, wherein more of the one signifies less of another, in

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32 The “prisoner's dilemma” is a standard example of a game analyzed in game theory that shows why two completely rational individuals might not cooperate, even if it appears that it is in their best interests to do so.

a “zero-sum game” i.e. a set-up where what one player gains, the other loses. The outcome may also be described as redistribution with no superior solution, and strategic tensions as compensatory relations resulting from one of the many balancing solutions to a conflict.

4. As a *paradox*. A paradox is perceived when two ostensibly contradictory or even mutually exclusive factors (A and B) simultaneously appear both truthful and valid. Paradox has *no real solution* because there is no way to logically integrate the two opposites into a consistent understanding of the problem. As opposed to the *either-or* dilemma, it can be defined as an “*and-and*” problem – one factor being as “true” as the opposing one. Thus, both the A and the contradicting B may be desirable: both competition *and* cooperation; both the market *and* the plan; more of the market *and* more of the plan; a better market *and* a better plan! Strategic tensions can be seen as a paradox too, having no real (“traditional”) solution not only because decisions are made in conditions of *risk* and *uncertainty* of a present, but because every strategy is inevitably opened toward a *future*, which is most frequently unpredictable and unfathomable. Although a successful strategy always contains a futuristic aspect, it is always its weakest part, as it is impossible to make a strategy of innovations. Caught between permanence and changeability, a way out may be found by combining various solutions in a *functional compromise* to *temporarily* overcome a paradox. In this case the term “temporarily” implies *constant wrangling with a problem* (Njegoš’s “unending struggle”) without ever reaching a final solution. Thus, there are *no final solutions* (which was Dr Strangelove’s<sup>33</sup> dream, known to the Nazis as *Endlösungen*, and ever so enticing to other ruthless power-mongers the world over), and no strategy that can do away with similar approaches to getting rid of a problem “once and for all”.

But, when a tension does emerge as a paradox<sup>34</sup>, the strategist has to try to accommodate both the A and the B simultaneously. He must search for new (heterodox) ways to reconcile the opposites in the best possible man-

33 An insane U.S. general who orders a first strike nuclear attack on the Soviet Union in Stanley Kubrick’s 1964 eponymous political satire – black comedy – movie that found its place in the first group of films deserving preservation in the U.S. National Film Registry for being of cultural, historical or aesthetical significance.

34 And this happens invariably, especially when small countries and freedom-loving nations are concerned. For them it is a *matter of survival*, while for the big and the powerful it a question of prestige and/or material interests – guaranteed by absolute concentration of might, domination, hegemony, exploitation... See [Robinson 2012].

ner, using the advantages of both options (“the best of both worlds;” “have the cake and eat it”), while trying to minimize their damaging effects. In its nature, the new approach of combining the opposites provides incentive to innovation and, in general, to creativity. It is the most difficult and challenging way to solve a strategic problem, but also the most successful, because at the end everyone gains, this being a situation described as a “non-zero-sum game”.

Thus, by its very nature, the Kosovo-Metohia tension is a *par excellence* example of a strategic question of the paradox type.

### THREE DIMENSIONS OF STRATEGY

There are, therefore, *three essential dimensions of strategy*:

1. *Strategic process*, which answers the questions of *how*, *who*, and *when*: *How is*, and *how should* a strategy be imagined, formulated, analyzed, constructed, controlled, and if need be changed? *Who* are the participants? *When* the necessary activities should occur? The *product* of the strategic process is:

2. *Strategic content*, which answers the question of what strategy *is* and what it *should be* for an individual, a household, a job, a company, an economic sector, a local community, a region, a national economy, a global company, or for a macro-regional integration, whereas:

3. *Strategic context* shows *where*, i.e. in *what environment*, a strategic process is taking place – that is, *what it fits into*.

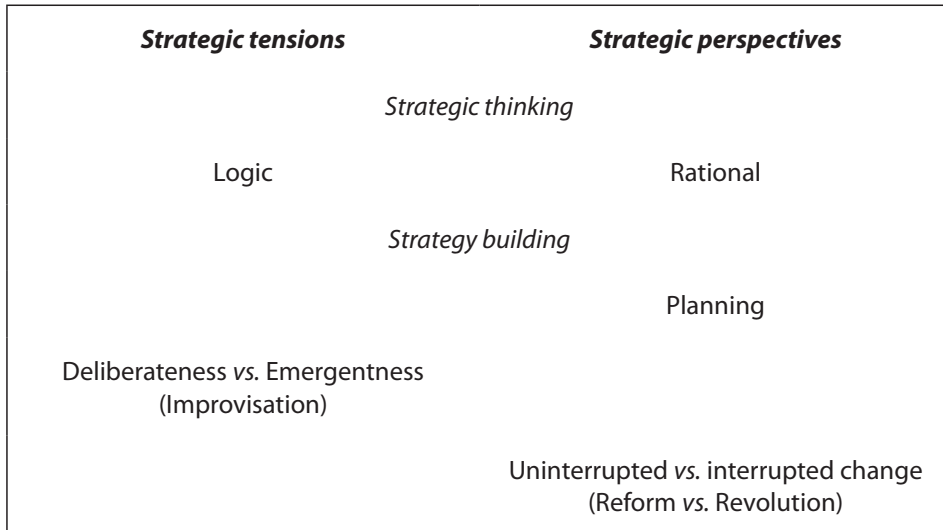
Moreover, *process*, *content* and *context* are not parts but *dimensions* of strategy. For, strategy is a *three-dimensional phenomenon* and all its three dimensions should be considered *simultaneously*.

Further, a *strategic process* consists of *strategic thinking*, *strategy building*, and *strategic change*. They are marked by the following elements of *strategic tension*, and the corresponding opposites of *strategic perspective*:

*The strategic content* defines *the level* of strategic thinking and action. It can appear on the level of a function or a job, on a corporate level, a *regional* or network level, or on a national and international level... In a market economy subjects begin performing strategically on the micro level, the higher levels gradually following suit, whereas in a central plan economy or society strategic policy is dictated from above, to be followed by lower levels divested of all autonomy.



In other words, there exists, and always did exist, some kind of strategy<sup>35</sup> at some level – either competitive or cooperative...



*Strategic context*, upon which both the theoreticians and the practitioners agree that each is unique, unrepeatable, specific, one of a kind, becomes the subject of contention among them only when the type of contextual influence on strategy is concerned. Thus, *determinists* believe that the strategists<sup>36</sup> have scant freedom of choice, since both the process and the content are usually the outcome of circumstances which they cannot control. *Voluntarists*, however, are of the opinion that strategies are not influenced so much by context as by their will to determine and follow a certain course of action. They claim that a strategy should, and can, create “its own” circumstances, instead of accepting the “marching orders” of the conditions it faces. That is, in their view context can be defined by the strategist, instead of being perceived as a given. At the organizational plane the issue is described as “control vs. chaos”, while at the sector level the situation becomes more complex and is seen as “compliance vs. choice.” At the national level, the dilemma intensifies into a

35 It appears that present-day Serbia is an exception, especially when it comes to a so-called grand or state strategy. Numerous “stillborn” sector strategies – some 200 of them – are not considered here. See [СБЦАХУ 1: 3–12]

36 For what an optimal strategist should look like, see chapter “Strategist – Homo Paradoxicus” in: [Оцић 2015, 2017: 16–18].

“compliance vs. choice” type of a conundrum, which is to say that in that case there is a confrontation of two perspectives, of “(de)evolution vs. creation”<sup>37</sup>.

### SERBIA: FROM ANTISTRATEGY TO OPTIMAL STRATEGY

The following three proverbs – *Pray to God that our goat gets the wolf* (Georgian); *If the earth shakes under your feet, grab for the skies* (Bulgarian), and *When the devil knocks on your door, don't stop doing what you're at* (Serbian) – well illustrate some possible approaches in devising and implementing a development (or survival) strategy.

These three proverbs, however, can be interpreted in various ways:

One way to react when facing an unavoidable challenge is to take the *nihilist or delaying and appeasing approach*. If someone utters the first proverb as a wishful “*let-it-be*,” instead of something like Njegoš's “May it be as it cannot be!” call to battle, that person does not believe in the positive outcome of his plea and by doing nothing annuls the very idea of strategic thinking and action.

The second proverb's *escapist or potentially mobilizing* meaning is also unintelligible outside the context of the times of troubles and defeat, when it may express a need for comfort, a cry for heavenly justice, or a belief that Good will prevail over Evil in this world or the Other one, and may even invigorate the spirit to act and overcome the troubles and misfortune.

The third saying is *activist*, but does not imply that action should exclude thoughtfulness (in Russian, that word – *promishl'nost* – being a synonym for industry), also contemplation, analysis, judgment, reasoning, etc.

In short, “*Pray to God, but sail towards the shore!*” is a Russian proverb that pragmatically, and paradoxically, synthesizes the “*Action and a meaning/purpose*” answer to the issue of devising, and the feasibility of realizing a development strategy in a spatial *and* a historical context.

But, how to think strategically in Serbia, and act accordingly? How are we to transform our 20<sup>th</sup> century historical experience into a lesson for a successful future? Where is our “Ship of Future” sailing to? This publication<sup>38</sup>

37 This is very well illustrated by numerous “public debates” about a “new” reality which leaves us powerless, and with no option but of bowing down (as suggests the name of some *liberal imperialism* NGOs, for example, The Flexitarian Society Foundation, London).

38 This text was initially (in an abridged version) published as an introductory essay to *The*

is one of the answers to those questions, wherein competent authors have amalgamated their thoughts on the subject by analyzing the established facts and proposing solutions through defining our strategic options of thought and action.

For, “In their actions, the Serbs... have to be not only in full agreement, but persistent and persevering, and not trustful of mere promises even if they are written down and signed, as experience shows that, unfortunately, not even the most hallowed principles have been honored.” This is what a young PhD candidate, Milovan Milovanović, understood over a century ago, sending a message to the Balkan peoples to always keep their powder dry, and their swords honed – the two things no guarantees can replace. For, only those nations which know how to fight will find champions for their cause [Milovanovitch 1888: 4]. We should never forget these metaphorical words of the future advocate of Balkan cooperation and the founder of the Balkan Alliance which, after five hundred years, achieved the most profound transformation of the Balkans. Even in the radically changed circumstances something remains the same – by mobilizing all our physical and intellectual potentials this should be taken advantage of in *the moments that may prove crucial*. The principles and rules of international law may prove to be the strongest argument in the hands of those who know how to use them “to their own, and general benefit.” [Милојевић 2006: 247]

For, rare were the moments in the turbulent Serbian history that were not crucial. This is especially true today, in conditions of burgeoning global interdependence, and the condensation and acceleration of history, when the Balkans is once more turning into a “seismograph” of world-wide relevance. Therefore, the question-answer “When, if not now?” is of utmost importance since for bureaucrats and quasi-politicians The Moment never comes. As an old adage says: “For soldiers it is always too soon, and for officers ever too late.” Or, as Søren Kierkegaard put it: “To dare may mean to lose ground under your feet for a moment, but not to dare means to lose life itself.”

KOSOVO AND METOHIA AS  
A *PAR EXCELLENCE*  
PARADOXICAL STRATEGIC QUESTION

Summary

How much pluralism can democracy withstand? ♦ Global context 1: Quantity vs. qua-lity ♦ Global context 2: Militarization (might vs. right) ♦ Global context 3: Commercialization and corporatization (skill vs. virtue) ♦ Stabilocracy and the new imperialism: Crisis as a permanent situation ♦ Varoufakis: Kosovization of Europe ♦ Hofbauer: Experiment Kosovo ♦ The Return of Colonialism ♦ Is there hope? ♦ Can smaller countries determine their (economic) fate at all? ♦ Strategology: Origins and purpose ♦ The nature of strategy ♦ Three dimensions of strategy ♦ The Kosovo and Metohia issue as a par excellence paradoxical strategic question ♦ From anti-strategy to optimal strategy ♦ Kosovo and Metohia 20 years after the NATO aggression: The situation and recommendations.

Key words

Kosovo and Metohia, Serbia, the Balkans, Kosovization of Europe, new imperialism, strategology, paradox

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KOSOVO AND METOHIA ISSUE  
DRAFT PROPOSAL  
FOR THE INTERNATIONAL MULTIDISCIPLINARY  
RESEARCH PROJECT



## WORDS, WORDS, WORDS

Kosmet or Kosova? Kos and Kosovo, metoh and Metohia. Other toponyms. Anthroponyms. Names and (territorial) claims.

## THE LAND

Location: border region. Area: comparatively small, but “dense”. Natural Resources. Geoeconomics. Geopolitical importance. Perception of the space: geopiety. (Sub)regional boundaries: spatial organization.

## THE PEOPLE

Number. Dynamics: demographic explosion and its consequences. Density. Age. Sex. Other structures: occupational, ethnic, linguistic, confessional, educational, urban, rural, health, literacy... Migrations. Comparative view. Population policies: problems of demographic transition. Census boycott: politicization of statistics.

## THE PAST

The Age of Ascent. The Age of Tribulation. The Age of Migrations. The Age of Oppression. The Age of Restoration. The Age of Communism. Archaism: Past in the Present and Future. Legacies of the Past: Negative and Positive. Pre-modernity, Modernity and Post-modernity: cummulation of the problems. Undigested History.

## THE PRESENT TIME CONTEXT

World: globalization. Western Europe: integration. Central and Eastern Europe: (post-communist) transition. Yugoslavia: breakup/disintegration of the state and country, war ... Serbia: sealed from the outside (UN and US economic sanctions) and from the inside (avoidance of reform).

## SOCIAL SPACE AND SOCIAL RELATIONS

Ethnicization of social relationships. Social space: sociofugal and sociopetal. Dualism and social density. Social stratification. Social mobility. Polarization. Dominance pattern. In-group exclusivity. In-group non-transparency: walls – real and symbolic. Command system and group cohesiveness. Compliance. Discipline: subsocial control. Ostracism. Shame. Hypocrisy. Mimicry. Detribalization process. Sociopathy: criminalization (ethnic Mafia). Social inhibition. Tensions. Neighbour images: stereotypes and (reflected) self-stereotypes.

## ECONOMIC (UNDER)DEVELOPMENT

Level and structure of Region's development. Regional disparities. Interregional economic flows. Regional policy: goals and methods, costs and results, goals and achievement. Efficiency problem. Failure of the Positive Discrimination ("Affirmative Action") Model. Autarky and autarchy. Privileges of the nomenklatura. Redistribution and parasitism. Psychic income: investing in ethnicity. Separatism: economic and political. Unemployment. Poverty. Conspicuous consumption. Black market. "Black" (parallel) state: double taxation. Carrying capacity: economic emigration.

## CULTURAL LANDSCAPE

Multiculturalism. Cultural boundaries and cultural ambivalence. Elements of contradiction: cross-cultural influences. Territorial subculture. Tradition and modernity. Universalism–particularism. Work culture. Symbols. Taboos.

## RELIGION

Religiosity. Clericalism. Christianity and Islam – interconfessional relations. Religion and politics

## LANGUAGE

Languages characteristics. Mutual linguistic influences. Dositej Obradović's attempt to reform the Albanian alphabet. Toponomastics. Diglossia. Polyglotism. Ethnic slurs: ethnophaulism. Language and politics: glottopolitics.

## EDUCATION

Age structure of the population and education. Elementary schools. Secondary schools. University. Departments and faculty staff. The number and structure of students. Politicization of the University. Diploma Disease.

## IDEOLOGY AND POLITICS

Politicization. Polarization: ethnic political parties and organizations. Political power structure. Nepotism, clientism, bribery, corruption, parasitism of the pseudoelite. Public opinion. Legacy of communism. (High) level of ethnic political aspiration. Euphoria and hostility. Disappointment and frustrations. Political emigree activity. Organized crime and politics. Autonomy. Secessionism.

## GEOPOLITICS

Ethno-contact zone. The Balkans geopolitical knot. Multiethnic equilibrium in Kosovo and Metohia and the stability of the Region.

## LAW

Un/written Law: decisions of zoti te shtepise (pater familias), kuvendas, kanuns (The Canon of Leke Dukagjini), pleqnias. Besa: the pledged word. Dorzonia. Adjudication. Retaliation: vendetta. Dushan's Code. Immigrants from Albania: citizenship problem. Ownership: problems of privatization. Law and politics: minority rights, human rights or the right to secession.

## FAMILY AND HOUSEHOLD

Group absolutism, group identification and group solidarity (viscidity). Extended family, clan, phratry and tribe. Sororate. Levirate. Pro-natalist behaviour. Familialism. Androcracy. Patriarchy.

## MULTIETHNICITY

Source of conflicts and the element of disintegration of the state and society. Factor of cooperation. Precondition for creative cross-cultural enrichment process. Ethnocentrism and social integration, Interethnic communication.

## IDENTITY

Individual and collective identity. Strong, almost exclusively, ethnic identification. The Kosovo pledge – The cornerstone of Serb identity. Inventing tradition. Illyrianism: the problems of interpretation. Limes. Identification with the aggressor: The Jannisaries phenomenon. Overall crisis and the identity problem. Identity crisis in post-Titoist Yugoslavia.

## PARALLELISM

(Self)isolation. Inward projection: endo-conviviality. Avoidance of contacts. Copresence. Silent trade. Working together in silence. Co-action tendencies – convergence or divergence? Who is right in the case of the Kosovo parallels – Euclid or Lobachevski?

## CONFLICT

Conflict of interests. Conflict of values. Conflict of identities. Credibility crisis. Ethnic aversion: biases and prejudices. Antagonisms. Ethnoexpansionism. Forced Albanization and Islamization. Ethnic cleansing. Assimilation. Ostracism (blacklists of the “collaborateurs”). Terrorism. Repression. Mass manipulation. Role of the media. Propaganda and lobbying. A/polemity: from armistice to war?

## COOPERATION

General politicization of ethnicity as a hindrance to communication. Cooperation at work. Trade. Business (particularly underground economy). Cooperation in criminal activity.

### VOJVODINA AND KOSOVO-METOHIA: A COMPARISON INSTRUMENTALIZATION OF KOSOVO AND METOHIA

In the ex-Yugoslavia. By the Great Power(s) (International Community) and by neighbors.

## “FUTURE STATUS”

Substantial autonomy. Global interdependence and provincial independence. (Un)conditional independence – Domino effect: Western Macedonia, Eastern Montenegro, Republika Srpska, Republic of Serbian Krayina, Istria, Transylvania, Catalonia, Bask Countries, Corsica, South Tyrol, Ireland, Transdnyestria, Nagorno Karabakh, South Ossetia, Abkhasia, Chechnya, Northern Cyprus, Kurdistan, Tibet, Taiwan, Xingkyang, Tamil Elam (Sri Lanka), Kashmir, Southern Thailand...

## PROSPECTS

The Balance of fear and/or dialogue. From struggle to co-existence. Divided responsibility.

## KOSOVO – BETWEEN LEGEND AND REALPOLITIK

*From:*

Časlav Očić. Kosovo and Metohia Issue. Project Proposal // *Зборник Матице српске за друштвене науке* (Нови Сад). – ISSN 2335–0393. – Год. 56, № 120 (2006), pp. 331–334. Original Version: Časlav Očić. Kosovo and Metohia : Investing in Ethnicity // *Discourse on Multilingual Cultures. Popular Cultures, Societies and Arts [多言語文化のディスコース – 民衆文化と社会と芸術]* / ed. by Yuichi Midzunoe. Taiga Shuppan. – ISBN 4–8115–5351–9 C 1095, Tokyo 1999, pp. 341–364.



EUROPEAN UNION OR EUROPEAN UNIONS?  
THE BALKANS UNDER GLOBALIZATION  
AND (RE?)EUROPEANIZATION



From everything that man erects and builds in his urge for living nothing is in my eyes better and more valuable than bridges. They are more important than houses, more sacred than shrines. Belonging to everyone and being equal everyone useful, always built with a sense, on the spot where most human needs are crossing, they are more durable than other buildings and they do not serve for anything secret and bad.

*Ivo Andrić*



## THE BALKANS<sup>1</sup>: PEACE AND DEVELOPMENT

Peace is the prerequisite and the result of the development process. This truism holds for the Balkans too (*Intermarium* 2; see [Stepić and Zarić 2016: map № 3; here: map № 1]); the Balkans are known as conflicted, unstable and relatively technologically and economically backward – and above all – as the region burdened by stereotypes. How could nowadays be defined the economic, or more exactly general developmental basis of long-term peace and stability in the Balkans? Are they included in the phrase ‘de-Balkanization of the Balkans’ in terms of Europeanization (or re-Europeanization if the Balkans were ‘the first Europe’)?

Since the beginning of the disintegration of the Ottoman Empire, the Balkan nations have been oriented to European (more precisely: Western) civilization based on scientific and technical progress. The legacy of that empire is: a semi-closed command economy, dominated by redistribution, non-generative cities (consumer-oriented urban enclaves, i.e., the economic *dualism*) remained – in more or less modified form – an important feature of the Balkan economies; their development may be defined as *asymmetrical* in relation to the rest of Europe.

The asymmetrical development manifested itself, during the Ottoman rule, in the *consumption* dependence, and then in various attempts at industrialization as a *technological, import, financial* or *total* development *dependence*. That dependence (among other factors) has resulted in a constant *relative backwardness* of the Balkan countries: they lagged behind even when they recorded progress. Even the high growth rates of the Balkan economies could not compensate for that lagging, that is, they were not sufficient to enable the achievement of the developed countries. The Balkans was not able to compensate for it under the aegis of capitalism or even under various forms of Balkan commu-

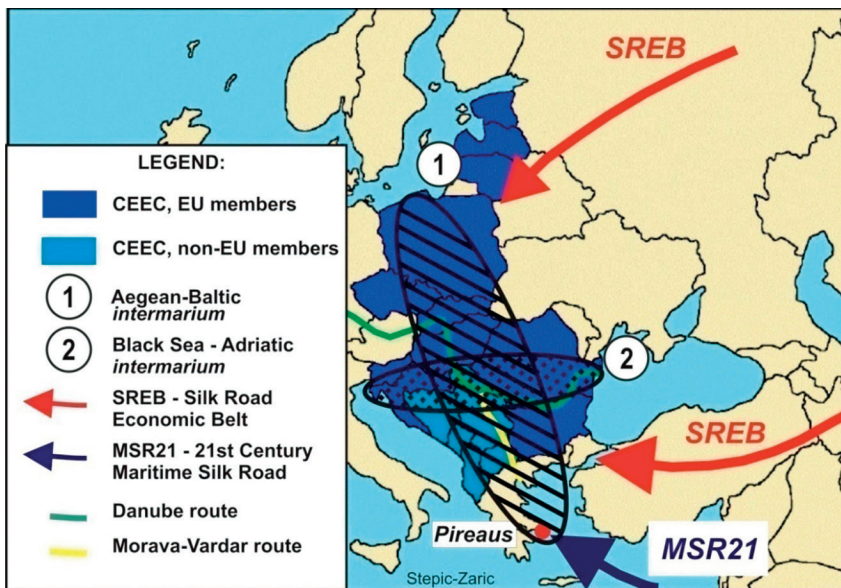
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1 For the use the terms ”Balkans” and ”Southeastern Europe” see: Milan Ristović, “The Birth of Southeastern Europe” and the “Death of the Balkans”. (on-line text available on [www.eu-balkan.org](http://www.eu-balkan.org))

nism. Will the Balkans be able to do so in the 21<sup>st</sup> century, using the comparative advantages of the *new model of capitalism* based on the *information*? Will the peoples of the Balkans, in the future, have access to all information that will be produced and used by highly developed countries and whether the inventiveness will come to the fore and in general, the *creativity of homo Balkanicus*?

Probably it will, if – in the developed world and in the Balkans – the development of culture, economy and society are to be based on *sound ecological and anthropological principles* – these are in essence the principles of conservation and expansion of the imagination, rather than of self-destructive quantitatively dimensioned growth. Otherwise, the Balkans are likely to become (or remain) *periphery* (or at best – dependent semi-periphery), the semi-isolated and marginalized. Hence, the question of the successful economic development of the Balkans is actualized (and) as a matter of integration: integration of related and/or complementary countries in the Balkan region, as well as the integration of the Balkans into Europe and the world.

Map 1. Intermarium 1 and Intermarium 2



Source: Milomir Stepić and Ivan Zarić, Serbia and Geopolitical (Non Complementarity of the Danube Strategy and the New Silk Road (manuscript, 2016; map № 3) [Stepić and Zarić 2016]

## COOPERATION AND INTEGRATION AS DOMINANT CHARACTERISTICS OF THE MODERN DEVELOPMENT OF EUROPE

One of the dominant characteristics of the modern development of Europe, primarily of Western Europe, is a process of close political and economic *cooperation*, and finally of *integration* that combines a number of very important European countries. The main content of that process is expressed in the view that the frameworks of nation states are insufficient for ensuring the smooth economic development of European countries and that in the interest of further and faster development is necessary to create a wider economic space that would (on the principle of *economies of scale*<sup>2</sup>) enable a more rational division of labor, i.e. a more dynamic scientific, technological and economic development.

But those demands were in practice (since the end of WWII until today) subordinated to (geo)political motives<sup>3</sup>: until 1989, i.e. to the fall of the Berlin Wall, integration in Europe took place with the active support of one of the two great powers: the United States had political influence on the Western European cooperation and integration, and the Soviet Union was in charge of the Eastern European integration. But while the basics of the *east European* cooperation and integration were primarily *political* in nature and therefore were not able to expand on the broad European regional plan, carried out on the basis of Stalin's conception of the existence of two parallel world markets, socialist and capitalist, the *western European* concepts – in whose emerging the political aspects played a significant role, i.e. the existing division of the world, especially of Europe, and the desire of Western European governments to promote new European policy at the international level – aspired more for *economic* solution, and thereby to the creation of such instruments of international economic cooperation, whose partial realization led to very significant changes in the physiognomy of contemporary Western Europe.

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- 2 On that (economy of scale) principle is based the famous Cecchini report *The Costs of Non-Europe*. That study was done in 1988 at the request of the European Commission for the plan to establish a single market by 1992 (Treaty of Maastricht). The report analyzes the economic consequences of the single market with the prediction of long-term economic growth and improved competitiveness of the European Community. It was calculated in the report that with the removal of existing barriers (border control, technical and tax barriers, etc.) the savings of 200 billion ECU could be realized, which would lead to a reduction in consumer prices, faster economic growth and to the creation of at least 1.8 million jobs annually.
  - 3 So that later they would give way to the *geo-economic* motives.

With the fall of the Berlin Wall and the collapse of the Soviet Union, the situation has radically changed. Only western European macro-regional integration<sup>4</sup> has remained on the scene. Continuing previous trends, it has led to a more or less coherent *economic-political-security* concepts of integration (*the three pillars*) whose (onerous) implementation has nowadays a significant impact on international relations<sup>5</sup>.

From the very beginning, *two* approaches to European integration are at work:

One: *Union = Unity.*

Other: *Union – yes, Unity – no!*

Over time, the second dilemma is gaining in importance:

*EU deepening – EU expansion (enlargement).*

Then within the enlarged EU: conflict of interest of old and new member states objectively caused by differences in the level of development and the sectoral structure of their economies.

Then: *enlargement fatigue.*

And then: the *global economic crisis* and the eurozone crisis.

The clash of civilizations (cultures, mentalities) between the North-South of Europe.

The relationship between the EU and the United States (or transnational power centers).

The attitude of the EU (especially Germany – Nord Stream) towards Russia.

The relationship between NATO and Russia.

The growth of regionalists (secessionists) demands within the EU member states.

The requirements for defining the procedures of the disintegration of the EU. Brexit.

The relationship of “converging” countries (those who live in hope that one day will become full members) towards the EU...

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4 Even an *experiment* of the *Eurasian integration* has emerged in recent times.

5 Although it is about the realization of an idea that has sprung up on the basis of very specific factors related to the situation that was created after the Second World War, it should be kept in mind – assessing its conceptual impact and its attractive power – that it is not new in history. Neither idea is new, nor practice: the Holy Roman Empire of the German Nation, Napoleon, Pan-Europe, Hitler... See [Hofbauer 2012].

There are numerous problems that characterize the process of European integration at the beginning of the 21<sup>st</sup> century. Whether and how those problems will be overcome?

## DEFINING EUROPE

Compared to the US and China, Russia, Japan... Europe (more precisely the EU), in the geo-economic *vista*, suffers from a weakness; namely, unlike other national capitalism, it has *no state*. Therefore, almost continuously, there are debates about its definition, i.e. on the relationship between economic and political integration processes<sup>6</sup>: whether Europe is the “Europe of *citizens*”, the “Europe of *nation-states*” or “Europe of *regions*”. Whether stronger affirmation of a Europe of the regions should relativize the importance of European nation-states and increase the *cohesion* of the European Union<sup>7</sup>, while simultaneously strengthening European transnational structures which should possibly play the role of the (competition) state in relation to other “national capitalisms”.

What is the most appropriate response to the crisis of European integration? How to economically revitalize the EU? – wonders Maurice Allais, convinced European<sup>8</sup>. Allais was a proponent of a *confederation of sovereign states* of Europe. According to him, the confederal formula is the only realistic way of creating a united Europe because only this form of political community would be accepted by all the European nations<sup>9</sup>. Historical experience tells us that the union of more nations and more states can be permanent and stable only if two conditions are met: *first*, not to be too large, and, *secondly*, to bring together countries or peoples who share a common history, culture, similar political tradition. In too heterogeneous communities inevitably occur centrifugal forces so that they usually are doomed.

The political integration of Europe should have preceded economic, and the fact that the order was reversed, i.e., that they accessed to economic integration which was not followed by political was, thought Allais, a big

6 See [Fuše 2000], [Šidanski 2002].

7 Regional policy in the EU is called *cohesion* policy. See [Edervén, Gorter, de Moji and Nahuis 2002].

8 Because, according to Allais, “unity gives strength”.

9 This is the attitude Václav Klaus [2010] who in this matter stands in contrast to European federalists, for example, Dušan Šidanski [2002].

and hard to repair mistake. A direct consequence of that is a technocratic deformation of the European institutions.

At the helm of the EU is a technocratic structure that gives the illusion of democracy. It was constituted on the model of *corporate* governance, consisting of a set of institutional rules that allow control of company managers in order to take decisions in the interests of shareholders. Transposed to the political institutions, the governance aims to direct the decisions of politicians towards the realization of the interests of *multinationals*.

On the economic front, the goal of European integration was to enable maximum operation of comparative advantages. A prerequisite for this is a huge market, i.e. the abolition of all restrictions on the movement of goods, people, and capital. The liberalization of trade is desirable, but only within the regional organizations that bring together the countries which are approximately at the same level of economic and social development. Each of those regional systems should establish an appropriate institutional framework that would ensure its *reasonable protection*. Respect for this principle is an essential condition for the development of each country, and vice versa – if this principle is not respected, violent and anarchic globalization becomes an instrument of destruction.

The constitution of such regional entities within the EU would not in any way mean their mutual opposition nor endangering of the third countries.

In this regard, expansion of Europe in April 2003, according to Allais, represents “an incredible stupidity and unacceptable mistake.” GDP *per capita*, at the time of acceptance, was in Poland, Hungary, the Czech Republic and Slovakia from 40% to 60% lower than for example in France and the differences in the level of wages were even higher. However, the Agreement of Nice did not envisage a transitional period for those countries joining the EU, which partly explains the problems that those countries and the Union are going through nowadays...

Allais points out that it would be overly simplistic to interpret the political, economic, social crisis through which the European Union is going only with the neo-liberal politics of Brussels. *The crisis* that affects Europe and the whole world is *anthropological* and its causes are complex and numerous. Therefore, the solutions have to be complex and not just economic in nature.



## EUROPE: BETWEEN UNITY AND FRAGMENTATION

However, the political union advocated by Allais, in fact, would mean the disintegration of the current EU and its transformation into a firmer associated confederal union of a small number of countries with about the same level of development. That would concretely mean the formation of a small group of countries from the founding states (or the states of the euro zone). Other members would be in different relations of partnership with that group of countries. [Бујишић 2010: 44].

As for the countries of Eastern Europe (*Intermarium 1 and 2*; see [Stepic and Zarić 2016: map № 3; here: map № 1]), Allais considered that they previously should be integrated into an economic union similar to the EEC which would speed up their development and contribute to the rise in living standards. After that, the integration of “two Europes” would be possible, but such a development would, in his opinion, “require many years” [Бујишић 2010: 45].

Over and over: *One Europe, two or more Europes?* EU or EUs? Nordic EU? Central European (German) EU? (European Germany or German Europe?), Latin or Mediterranean EU? *Balkan EU*<sup>10</sup>? Greater Balkans?

## ENDIST GLOBALIZATION CONTEXT

At the end of the last century most western, and intellectuals in the transition countries believed that the time of universalization has started, instead of *Huntington's clash of civilizations*, that *the era of global civilization* was coming. It was a time when the global potentates intensified their work on a kind of historical engineering: unconditional command of the new *RS*

10 Shortly “after British voters elected to leave the European Union, the bloc has begun to fracture along regional lines. According to Greek media reports, the government in Athens is attempting to organize a summit of Southern European countries in early September, just days before a scheduled EU-wide conference in Bratislava. So far, Greece has sent invitations to the leaders of France, Italy, Spain, Portugal, Cyprus and Malta.

The Greek initiative is only one indicator of a trend emerging across the European Union. The Brexit decision has raised questions about the bloc's future, and its members are turning to their neighbors, not to Brussels, for answers. Countries in Central Europe – Višegrad Group members Poland, Hungary, Slovakia and the Czech Republic – held their own meeting in July to assess the referendum's impact and craft proposals for EU reform. Their solutions, which they will present at the Bratislava summit, will likely center on a request to repatriate some powers from Brussels to national governments.” [Stratfor 2016]

(Rules of Service), which guarantees the survival and expansion of the global civilization, which is *in the sign of Capital* and it reads as follows: authentic politics and culture should not stand in the way of *economic expansion of transnational capitalism*. And at the cost of self-destruction of this civilization, which seems immanent therein, since the absolute, global turbo-capitalist civilization is fighting against everything that is basically a *singular*, authentic: against the nation and the nation-state, against the law, against science, against education, against the family, against religion, against tradition in general (including European tradition), and even against work. In simple words, against a quality, and for quantity! Against values and for a utility; against creativity and for imitation and simulation; for uniformity and against diversity; for drab existence and boredom of mediocrity; maximizing the quantity and speed...

Actually: “Victory and business are its only imperatives. The slightest affection, feeling, law, legislation, love, emotion, religion – all of which can endanger the full freedom [of choice, added Č.O.] is a concession to competition, a stumbling block and a sign of defeat. Everything is allowed, but only after ensuring economic victory, only after predominance [of capital, added Č.O.] becomes certain,” wrote in the novel *Gomorra*, several years ago, the Italian writer Saviano.

During last decades of the 20<sup>th</sup> century, the global ideosphere was dominated by endist constructs such as “end of ideology”, “end of history”, “end of geography”.

- *End of ideology* should have marked downward impact of classes on politics, where left and right accept the *class peace* of the welfare state;

- *The end of geography* was announced by McLuhan: the electronic media have made of the Earth a “global village”. Various technological determinists have developed an idea and transferred it to other systems of information – when at the same moment all the “global” citizens would be able to get any information, it means that the physical distances no longer exist, i.e. that *space* is abolished as, allegedly, “the end of history” abolishes *time*.

- *The end of history* has come, because, as Fukuyama says, what at the end of the second millennium appears as a form of social organization and system solution in the developed western countries, represents the last step in the previous thousands of years old economic quest of man, searching for prosperity: the *system of liberal democracy*, it is argued, is the best possible and there will be no search for a new one nor aspiration for change. Paradoxical

cally: *history thrown out the window, came back in a big way* – even condenses, which makes it *epochal*; some concerned thinkers – whom their opponents accuse of moral panic – anxiously perceive that epoch as pre-apocalyptic.

## TRANSNATIONAL LIBERALISM AND GEO-ECONOMICS

“The history of mankind, understood as the history of the states, is a contest between two and only two principles. The man has two and only two ways to provide for himself the necessary goods: the economic way of providing goods is work, and a political way is a robbery. *Economic* way means peace, freedom, fraternal community, camaraderie, humanity. *Political* way means war, lack of freedom, egoistic society, domination, barbarism.” Thus, more than eight decades ago, the German sociologist Oppenheimer *a priori* antagonized political and economic domains at the expense of the first, and in favor of the second.

Make trade, not war! – That message to outgoing feudal absolutist monarchies was sent by market capitalism on arrival. Nowadays, in contrast to that (seemingly) peaceful transitional slogan, the opinion about the economy as the basic sphere of conflict of interest at the global level prevails. Opinions differ according to whether as primary actors of confrontation are perceived the *companies* or the *states*, or the nations. *Transnational liberals* and *geo-economists* lead heated discussions about that, giving a new framework for two centuries old controversy about the role of economic and non-economic factors (primarily, the states) in the economic development of individual countries.

Proponents of geo-economics claim that after the cold war, the main battle is economic; it is waged between the different types of national capitalism. Competitiveness is the key because globalization is *a zero-sum game*. Not companies, but cities, nations, states, blocks mutually compete. The growing interdependence of world economic processes is not denied; But, *We need to respond to globalization by being stronger* relative to our competitors. Here you can see also the new role of the state: instead of the *welfare state*, it becomes the *competition state*, which should give a major contribution to our *victory*; American geo-economist Edward Luttwak [1993] wrote in a book entitled: *The Endangered American Dream: How to Stop the United States from Becoming a Third World Country and How to Win the Geo-Economic Struggle for Industrial Supremacy*.

Critics reproach geo-economists that they fall into the trap of territorial, assuming that the economies can be defined – mathematically speaking – in discrete territorial terms. Reich believes that the idea of competitiveness is used to reduce the tax and for the suppression of workers' interests. Chomsky, also believes that geo-economics is an ideology that serves the interests of the wealthy to push workers to work harder for less reward. Krugman argues that it is incorrect that the leading nations of the world, in some significant degree, economically compete with each other. Companies, not nations compete in a global economy. Geo-economics serve national rather than transnational business interests and leads to protectionism.

The proponents of transnational liberalism are the coalitions of elites in liberal states, international institutions, and transnational corporations. For them, free trade and open markets are the key to economic success and prosperity. According to them: globalization is positive for all: it is the *non-zero sum game* in which everybody wins. State interference in the economy is bad: protectionism has disastrous consequences. The role of the state is to create the best business climate for corporations. The world consists of states that are “friendly” or “hostile” to the market (measured by indices of freedom by Freedom House). The danger are not other states but protectionists; enemies in other countries are in fact enemies of the market – thus, neoliberals (ideologically) intone their arguments.

## ECONOMIC CRISIS AND WAR

Even Carl Schmitt argued that the *war* was a way out of the *crisis*: a way out from a small crisis is small, and from a great crisis – a great war! (Some historians and economists believe that the world came out of the Great Depression in the 1930s only and finally with the Second World War). Creating crisis hotspots and launching of wars without winners (*no win war*) and by proxy (*war by proxies*) after the Korean War in the mid last century (the first such war) has become a matter of routine for powerful. And it seems it has become a necessity, because the structure of production and consumption, for example, in the US, has changed drastically in favor of the military-industrial complex, so that any dynamization of economic activity, or more exactly a way out of the crisis, means growth of production of tools, weapons, and ammunition. A demand can be increased only if you

move into a new war. There are also the biggest profits that are quickly realized. Therefore, investment in the war in economies with such a structure is the most profitable investment. How does this affect the labor market? In addition to increased demand for tools, weapons and ammunition, there is a growing demand for mercenaries (*janissaries*), prostitutes and (voluntary and involuntary) donors of human organs. And given the fact that for a long time we have been living in a post-heroic age, it is considered “normal”, and whoever in the domain of those “new” services succeeds, he is the hero of the new reality.

The terms used in today’s economic debates are substantially defined by the semantic heritage from previous debates. Thereby, the influence of other so-called exact sciences is visible in economic terminology: first of all of physics (equilibrium, oscillations...), then biology (*Kreislauf* or circulation, growth, development, seed capital), medicine (shock therapy) and more of military science (economic sanctions, economic security, economic warfare, hybrid war, cost-benefit analysis of strategic migrations as a weapon of war, strategic management...). The *militarization* of the economics (the science of the economy) is undoubtedly the result of the militarization of the economy. Many criticize the use of military terms in the economic sphere; they consider that militarization as an expression of neo-mercantilism and economic nationalism; according to them, it inevitably leads to conflicts.

For real and “surreal” (speculative) economy (based on military and political power, and not on economic efficiency) permanently upset the equilibrium (primarily of capital and labor) necessary for a sustainable economic (and overall) development. Whether the point of singularity has been crossed there? If so, then here, in terms of the future of humanity, no science can help; not even the Institute for New Economic Theory (INET) for the establishment of which the well-known magnate Soros provided four billion (of course, not his!) dollars. The previous economic science, said Soros, was unable to solve the problem of unemployment; that issue will be resolved by new economic theorists from INET’s! The outcome of the collision of *knowledge* and *power*, economics and politics, is known from experience. An example of the choice between *growth* and *power* illustrates the paradox of economic reforms under socialism – from the Soviet NEP to the Serbian Dragoslav Avramović. It turned out that the *reform* can not be understood only as an *economic* process (even less as only *monetary*, on what was once essentially reduced Avramović’s Program I) which aims to increase the growth rate of

economic aggregates – it is also a *social* process in which the *interests* of heterogeneous social groups clash (which was immediately evident as soon as the Avramović's Program II raised the question of the state and ownership or changes in the constellation of power). The outcome of that conflict is known. Notwithstanding the ingenuity of Avramović's idea and success in the first phase of its implementation, poor grandfather Abraham (Serbian: *deda Avram*) was declared the "enemy" and thus gave an original contribution to the typology of enmity.

According to the Baudrillard's *genealogy of enmities* (in slightly modified Byung-Chul Han's interpretation) enemy in the first stage appears as a *wolf*. He is an external enemy who attacks and from whom people defend themselves by making fortifications and building walls. In the next stage, the enemy takes the form of a *rat* who conducts operations in the underground; the fight against it is kept with hygienic means?!. After the next stage of a *bug*, the enemy takes the viral form: "The fourth stage are the *viruses* [...] against the virus it can be more difficult to defend, as they are at the heart of the system." The virus is a "phantom enemy that spreads over the entire planet, penetrates everywhere [...] and enters all the cracks of power." (According to Baudrillard, *terrorism* is a major figure of the viral force). Even in the viral form, enmity follows the immune scheme. But the genealogy of enmity does not match the genealogy of (hard) force. The force of positivity does not assume any enmity (except auto-chauvinism). Therefore, the *neural force* is less visible than viral force, because it inhabits the *space of equal* (devoid of negativity) in which there is no polarization of friends and enemies, internal or external, or of their own and other people's. Baudrillard and Byung-Chul Han believe that new forms of force are immanent to the system; precisely because of that they do not stimulate the immune defense. They may be right when it comes to the developed, mature, oversaturated and overworked Western societies. It seems to us that this might not be valid for Balkan Barbaro-geniuses who are being brainwashed with media carpet bombs by spin doctors and other mud-dlers and political wheeler-dealers 24 hours a day, 7 days a week, 52 weeks per year. It is rather an attempt to manipulate the consciousness by imposing self-hatred and/or depression, which in any case should result in the absence of the will to live. So that a disturbing factor puts-an-*end*-to-himself. Endism at work...

## ENDISM AND TRENDISM

The complex and contradictory reality (and counterproductivity of propaganda), however, have called and constantly call into question the reductionist character of endistic intellectual creations. Those theories have not originated only as a result of serious aspirations for explanation and understanding of the phenomena and processes, they implicitly both justify and direct (which is the role of *ideology*, so there is no question of some kind of their end, because there is no end to interests: they even universalize), therefore, those theories, in addition to analytical and explanatory, they play (more precisely: they have primarily) *legitimizing* role.

Modern Rationalism (as opposed to the passions and heroism of Romanticism) has brought the *universalization of interests* and their legitimization. And not only as the legitimacy of the interest of survival and development, i.e. improving the lives of individuals and communities, but also with regard to the real constellation of power, as the legitimacy of the interests of subjugation, exploitation and destruction of others (weaker): “If we see that Germany is winning we ought to help Russia, and if we see Russia is winning, we ought to help Germany, and that way let them kill as many as possible”, Harry Truman said in 1941 in the US Senate, giving a paradigmatic example of understanding the interests of great powers (Harry S. Truman, Senate Speech, *US Week*, July 5, 1941; [Truman 1941]).

## SALE AND TREASON

At the same time, the tendencies of *commercialization* and *corporatization* are growing stronger. Everything is a subject of buying and selling, including humans, their bodies, and even their souls. Local and regional markets joint in a global flea market of sold souls. The *Mainstream* neo-liberal doctrine legitimizes it by the freedom of choice in the world's – the only real – (labor) market; therefore (“fair”, without a guilty conscience): “I work for whoever pays me more”. It has become more and more crowded in this market in recent years: the supply is growing at an exponential trend, because increasing supply follows the general trend of mass impoverishment (most of the second-world countries have been turned, by transitional robbery, into the third-world countries, and there is a growing gap between the traditionally

developed and undeveloped) and therefore, the prices for treason, in accordance with the theory, are rapidly falling.

What was once commonly thought about it? “A nation can survive its fools, and even the ambitious. But it cannot survive treason from within. An enemy at the gates is less formidable, for he is known and carries his banner openly. But the traitor moves amongst those within the gate freely, his sly whispers rustling through all the alleys, heard in the very halls of government itself. For the traitor appears not a traitor; he speaks in accents familiar to his victims, and he wears their face and their arguments, he appeals to the baseness that lies deep in the hearts of all men. He rots the soul of a nation, he works secretly and unknown in the night to undermine the pillars of the city, he infects the body politic so that it can no longer resist. A murderer is less to be feared. The traitor is the carrier of the plague”, Cicero wrote two thousand years ago. What has changed since then? Much of it, especially since the end of World War II; which, in the case of England, can be seen in the book *The Meaning of Treason* by unrivaled Rebecca West [Bect 2013].

## PEACE AND STABILITY

In the meantime, we are constantly being advised that we should live in peace and stability. “Stability” here stands as a euphemism for “control”. In the New-speech, therefore, “stability” might mean (and usually does): everything is under control! More precisely: under *our* control. This is the essence of the old and the new imperialism. In the *old imperialism*, control is done directly (by using hard force, land invasion, for example) and in the case of the new, so-called *economic imperialism* control is done with subtlety: by using *soft* and *smart power* as defined by Joseph Nye. Economic imperialism occurs when one country controls the other and uses the resources needed for that control. The ideological *justification* of the controller is: it is cheaper for the country-victim, therefore, it “allows” to be controlled. A critical *contestation* of the controlled: country-victim always has the possibility to say “no”, there is no long-term solution, i.e. sustainability of economic imperialism, because dominance lasts as long as the resources last that are used for control. From the standpoint of the interests of imperial power, the solution is: make the country-victim dependent on the “controller’s” resources, for example, by *borrowing*. (Classic *occupation* is much riskier and more expensive.)



It is relevant (and paradigmatic) the case of the Greek debt bondage. Yanis Varoufakis, a former Greek finance minister, on the 6<sup>th</sup> of February, in 2015, summed up the problem in one sentence: “A clueless political personnel, in denial of the systemic nature of the crisis, is pursuing policies akin to carpet-bombing the economy of proud European nations in order to save them.”

Before our very eyes, “the old order” is crumbling (or is already in ruins) before the forces of arrogance (*We make history!*) and cynicism (deconstruction experiment). In the growing process of sovereignty decline, i.e. historical de-subjectivization, numerically small and economically deprived nations become an object (“guinea pigs”) of a “new” order: “The current policy of Europe leads to its dismemberment. The worst case scenario of the crisis is Kosovization of Greece, Spain, Ireland, Portugal, Italy and so on, in protectorates that use the euro, under the regency of the European Commissioner and local kleptocrats, with young people as the only important export item.” With these words, Varoufakis predicted, at the end of 2014, the post-crisis development of Europe and Greece in the absence of a radical step forward from the worst financial and economic crisis since World War II.

Is there, in this bleak global landscape, any chance for differences and diversity, for universal principles and rules, for common values, for the small, the weak and the poor, “talented but not lucky” (ТАЛАНТЛИВЫЙ, но не удачливый)? The *pessimists* do not see them (because, as Oscar Wilde’s weaver interprets the common fate: “In war, the strong make slaves of the weak, and in the peace the rich make slaves of the poor”), *optimistically* radiant faces of scientists and techno-bureaucrats profess unreserved belief in the imminent bright future. And the *realists*? They – roll up their sleeves!<sup>11</sup>

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11 With the motto “When the devil knocks at your door – you should work!” sixty eminent real-optimists gathered recently under the auspices of SASA and compiled a voluminous book Possible Development Strategies of Serbia. The result of their strategic thinking and acting is the (new) Institute for Strategic Techno-Economic Reflection (ISTER), which should respond to the challenges of survival and development that lie ahead.

It is encouraging the initiative of the Department of Social Sciences of SASA to start all-departmental, therefore, a multi-disciplinary project under the working title “The future of Serbia”, which should answer the question: where does Serbia go (or should go)?

So: the work never ends. Work – in freedom. And in cooperation with other – national and international – research institutions.

EUROPEAN UNION OR EUROPEAN UNIONS?  
THE BALKANS UNDER GLOBALIZATION  
AND (RE?)EUROPEANIZATION

Summary

The Balkans are known as conflicted, unstable and relatively technologically and economically backward – and above all – as the region burdened by stereotypes. How could nowadays be defined the economic, or more exactly general developmental basis of long-term peace and stability in the Balkans? Are they included in the phrase ‘de-Balkanization of the Balkans’ in terms of Europeanization (or re-Europeanization if the Balkans were ‘the first Europe’)?

The asymmetrical development of the Balkans manifested itself in the consumption dependence, and then in various attempts at industrialization as a technological, import, financial or total development dependence. That dependence (among other factors) has resulted in a constant relative backwardness of the Balkan countries: they lagged behind even when they recorded progress. Even the high growth rates of the Balkan economies could not compensate for that lagging, that is, they were not sufficient to enable the achievement of the developed countries. The Balkans was not able to compensate for it under the aegis of capitalism or even under various forms of Balkan communism. Will the Balkans be able to do so in the 21<sup>st</sup> century, using the comparative advantages of the new model of capitalism based on the information?

The last decade in Europe was marked by stronger (simultaneous) integration and disintegration processes. The forces of convergence and divergence have been intensified. The global economic crisis, the crisis of the eurozone, threatening with “Exits” (first Grexit, now Brexit...), enlargement fatigue, a growing democratic deficit in decision-making, migrant crisis, terrorism on the territory of Europe (Paris, Brussels, German towns), antagonism with Russia (Ukrainian crisis), the war in Syria, influence the emergence of new (strategic) economic, political and security ideas that will undoubtedly affect future geoeconomic and geopolitical architecture of Europe. Thus, ideas are emerging about “the European Unions” (Nordic, Germanic, Mediterranean or Latin, restored EFTA, Balkan Union) as an interim (or transitional) phase of deeper and long-term European integration.

Does humanity go towards a society without labor? Whether due to robotization, the global economic crisis, and rising unemployment, and the labor also (as well as history, geography, the state, the nation, family, religion, ideology, Eu-

rope...) will come to an end? What is the relationship of labor and looting? Labor and war? How general commercialization and corporatization affect the labor? Whether new economic imperialism or new slavery is on the horizon? Neo-feudalism? Neo-mercantilism? What is the future of postmodernist experiment of deconstruction? In the world. In Europe. In the Balkans.

### Key Words

The Balkans, Europe, EU, Russia, Intermarium 1, Intermarium 2, globalization, world economic crisis, automation, labor, unemployment, cyborg

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