This does not mean that we place the role of the Communist party of the Soviet Union and the social system of the USSR in the background. On the contrary, we study the Soviet system and take it as an example, but we are developing socialism in our country in somewhat different forms.

- J. B. Tito, April 1948

(replying to Cominform expulsion of Yugoslavia)

Theory of Market Socialism

- a hybrid of market and planned system
  - state still owns capital (the means of production)
  - market system allocates resources
- Why is it appealing?
  - combines ________ of a socialist system and _________ of a market system
  - major alternative to capitalism
- 2 different variants
  1. ________ management of capital (Lange)
  2. ________ management of capital (Vanek)
The Lange Model

CENTRAL PLANNING BOARD
1. set prices of producer goods
2. allocate social dividends (rents and profits)

INDUSTRIAL AUTHORITIES
• determine sectoral expansion of industry

FIRMS
1. produce until ______
2. minimize ______

HOUSEHOLDS
1. choose how much to work
2. spend/save

The Lange Model

• Positives
  • CPB would be relieved of a substantial administrative task
  • ______ distribution of income
  • state controls investment →
  • better control of ______
  • reduction in ______

• Criticism
  • still large bureaucracy
  • managerial incentives?
  • ______ behavior

Market Socialism in Yugoslavia

• not a Lange-type market socialist system
• cooperative, or labor-managed system

socialist:
  • state owns the ______

capitalist:
  • _______ done through market forces
  • _______ the means of production

principles of the participatory economy
(Jaroslav Vanek)
**Participatory economy**

1. participation in management
   •
2. income sharing
   •
3. socially owned capital
   •
4. market coordination
   * consumers, firms, various levels of gov’t ______
     ______ failure. Intervention in case of market
     ______
5. freedom of employment

**Participatory economy**

distinctive objectives:

- capitalism: firm *profit maximization*
- socialism: preferences of leaders, planners, party
  officials (less clear)
- participatory economy: maximize the ______
  ______
  • this is equivalent to maximizing the amount of
  ______

**Income maximization**

\[ Y/L = \frac{PQ - T}{L} \]

where

- \( Y/L \) = net income per worker
- \( P \) = price of a product
- \( Q \) = quantity produced
- \( T \) = fixed tax levied on capital (cost of capital)
- \( L \) = labor input

Hire labor until:
Optimum employment

Benefits of a participatory economy
1. lower tendency to monopolize
   •
2. lower nonproductive expenditure
   •
3. lower incidence of labor disputes/strikes
4. higher employment than under capitalism
5. lower inflation
6. more social responsiveness
   •

Negatives of a participatory economy
1. firms are less responsive
   • more friction in labor markets
   • _______ instead of downsizing
   • _______ price elasticity of supply
     - in some cases could provide a negative-sloping supply curve
2. less innovation and research
   • smaller firms cannot effectively spread costs of research
3. market power does affect workers’ income
   •
Performance of Market Socialism

- Hypotheses:
  - Income distribution
  - Efficiency
  - Economic growth
  - (macroeconomic) Stability

Yugoslavia

- the only country to resemble the principles of a worker-managed (participatory) system
- Communists established power after WWII, but were unwilling to see the domination by the Nazis be replaced by that of the Soviets
- broke away from the Comintern
  - allowed Yugoslavia to experiment with economic policy

Wages (residual incomes)

- Basic organization of associated labor (BOAL)
  - Sales revenue of a unit (BOAL)
    - Non-labor costs
      - Gross income of the unit
      - Taxes paid by the unit
      - Net income of the unit
      - Investment by the unit (in production services and in housing/other services for the workers)
    - Gross personal income of the workers (based on work points)
      - Personal taxes
      - Net personal incomes of the workers
Work points

An Example of Work Points Assignment: Zaprešić Textile Factory, 1984

<table>
<thead>
<tr>
<th>Skill and Experience</th>
<th>Authority</th>
<th>Responsibility</th>
<th>Physical Effort</th>
<th>Mental Effort</th>
<th>Working Conditions</th>
<th>Total</th>
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<tr>
<td>Hanger driver</td>
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<td>170</td>
<td>150</td>
<td>190</td>
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<td>100</td>
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<tr>
<td>Sales clerk</td>
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<td>145</td>
<td>140</td>
<td>165</td>
<td>10</td>
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<td>120</td>
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<td>45</td>
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<td>20</td>
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<tr>
<td>Female worker</td>
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<td>10</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>


Reality

- management selection
  - politicized
  - in late 70s and 80s – mistrust in management → large incidence of strike activity

- investment
  - no capital markets
  - negative real interest rates → less investment than in capitalism: workers reluctant to invest since they can reclaim ________, but not the ____________

Unemployment

- high in Yugoslavia
- existing firms cannot absorb extra workers
- very low incidence of new firm creation
- large regional disparities, but labor markets were too rigid (cultural/religious barriers)

![Graph: Unemployment Trends 1967-1987]
Reality

- firm size
  - high concentration in many markets
  - more than 50 firms with >10,000 and around 5 firms with >30,000 workers
  - limited investments played a part in making firm size larger

- inflation
  - _______ than in capitalist economies
  - price controls to fight it

- social responsiveness
  - environment _______ in Yugoslavia than in market economies (standard of living)
  - “problem of the commons” – that which belongs to everyone in fact belongs to no one