Comparative Economic Analysis of Yugoslavian Model of Market Socialism with the Command Economy of China and Cuba

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Abstract

It is no longer an arguable fact that Yugoslavia as well as China and Cuba have some elements of socialism in their economic systems. However in practice, the Yugoslavian economy differs from that of China and Cuba. While that of Yugoslavia is decentralized, liberal and market socialism, China and Cuba operate a command or centrally planned economy. A market (liberal or democratic) socialism is characterized by public ownership of at least the strategically important material means of production, but also by free choice of consumption and of occupation. All material means of production are managed by public officials who follow certain rules of behaviour. The “market socialism” model begins by assuming that the consumers exercise freedom in consumption. They are “sovereign”, as under capitalism, providing the “guiding criteria” for the production process. Similarly, as labourers, they are free to choose the occupation “paying the highest wage”. The caveat exists, however, that the government makes sure that the distribution of the social dividend be such as not to interfere with the optimum distribution of labour services between the different industries and occupations. Further, this optimum requires that the social dividend be distributed so as to have no influence whatever on the choice of occupation. Thus, occupational freedom is preserved within the spirit of socialist egalitarianism.

KEY WORDS Comparative, economic analysis, market socialism, command economy, Yugoslavia, China, Cuba.

1. Introduction

In 1965, the Yugoslavian government instituted major economic reforms that ushered in market socialist economic system. Under this system, the government surrounded control of investment funds to enterprises and to a reformed banking system. Lowered taxes allowed enterprises to keep more of their earned income instead of handing it over to the state. The government lifted price controls, and it devalued the currency (the dinar) to encourage exports. Investment priorities changed to favour consumer goods over heavy industries. Peasant farmers gained access to credits, enabling them to buy farm machinery to expand production and end the dependence of food imports (Sik O. 1967). Yugoslavia lifted its restrictions on emigration, and each year after 1965 up to a million Yugoslavs lived in Western Europe as guest workers. The earnings they sent home became increasingly important to the Yugoslavian economy, contributing to a boom in private house building and small private enterprises. The Centrally Planned Economy of China and Cuba is an example of Practical Socialism where there is Public ownership of means of production and complete replacement of market mechanism by central economic activities and the effective mobilization of scarce resources for productive investment.

The rest of the work is organized as follows. Section two contains the features of the Yugoslavian economy, The Command or centrally planned economy of China and Cuba is in section three, Section four compares the Yugoslavia market socialism with the Command or Centrally planned economy of China and Cuba, Lessons for other developing economies is in section five, while section six concludes the work.
2. Features of the Yugoslavian Market Socialism

a. Workers’ Self-Management: According to Koopman (1971) the most unique and distinctive feature of market socialism in Yugoslavia is workers’ self-management. The basic ideological principle of the system of workers’ self-management is laid down in Article 1 of workers’ council law, as follows: “The factories, mines, transport, commercial, agricultural, forestry, communal and other state economic enterprises, as the common property of the whole nation, are administered in the name of the social community by the working staff, within the framework of the state economic plan and on the basis of rights and duties established by the law or by other legal participation.”

According to the principle, the state begins to wither away when the proletariat assumes power. This process of withering away is gradual and begins first of all in the economic functions of the state. According to the idea, state ownership is the lower form of social ownership. The management of the means of production by the workers themselves is a higher form of social ownership. Thus, workers self-management ushered in a new period of socialist development. Under the new system, the workers are not legal owners of an enterprise; but they have the ultimate authority in its affairs. The remuneration received by the workers depends on the profits earned by the enterprise. More accurately speaking, the workers receive dividends and not wages see (Large et al 1971, Ward 1967).

b. Free Market Mechanism: There is a high degree of freedom of consumption and employment in Yugoslavia. More than a million Yugoslaw workers are working abroad. There is no state restriction on choice of job. Individual enterprises are largely guided by market prices. Similarly at the macro level, the activities of the firms are primarily coordinated by the operation of the market forces. The economy is highly decentralized.

All decision-making units, firms, households and the public sector decide freely without direct interference from the state planning, and economic policy may be implemented through use of indirect policy instruments, discussion or moral suasion and not through a direct order to the firms. With Yugoslavia’s basic commitment to market socialism, there has been a tendency for the price mechanism to play an increasing role (Hayek 1940, Brus 1972).

c. Social Democratic State: Marx and Engel were of the view that the state would wither away once proletariat had assume power. Till 1949, in Yugoslavia, there was an over-centralized state with a number of evils. The new state followed the Soviet pattern. But later it was realized that centralization created “State Capitalism”. The state became the sole owner of the means of production and distribution of income. Such a centralized state became a privileged, self perpetuating bureaucracy, transforming itself into a force above society (Baghebo, 2012).

But this was not the role of the state as visualized by Marx. According to them, once the first stage of revolutionary struggle was over, the withering away process of the state could start. The various measures of economic, political and social decentralization were the steps in that direction. The state cannot completely wither away in the fore-seeable future. Certain important functions such as “coordination, control, the army and foreign policy” will remain the responsibility of the Yugoslav state.

d. Liberalism: Totalitarianism is usually considered part and parcel of a communist system. Relaxation of totalitarianism is a factor that distinguishes Yugoslavia from other communist states. Although by western standards, Yugoslavia has less of the features of democracy, yet judged by communist standards, the Yugoslav system is quite liberal and “humanized” (Robert 1971). Their legal system is based on the process of law. Government functions have been decentralized. A broad section of population takes part in administering public affairs. This relaxation is reflected in the stress on the individual and his “natural rights”. Strikes are tolerated. Freedom of the press is quite high. Travel to and out of Yugoslavia is free than is the case with any other communist country. The government does not oppose religious practices. Even anti-regime demonstrations have been tolerated. Death penalty for economic crimes has
been abolished. According to theory, “Socialism must ensure each individual have the right to a comfortable, pleasant and independent, personal family life”.

3. The Command or Centrally Planned Economy of China and Cuba

The centrally planned economy is another type of practical socialism characterized by public ownership of the means of production and complete replacement of market mechanism by central planning of economic activities. In the system, prices are determined administratively by government. The advantage of this system is that it is able to mobilize scarce economic resource effectively and channel them into their most productive investment. Countries that have adopted this system included the USSR, China and Cuba. The spectacular industrial growth of the Soviet Union or USSR in the decades after the Bolshevik revolution of 1917 provides ample of evidence of the effectiveness of central planning.

In these economies, comprehensive national and regional plans are drawn up every year, setting production targets and resource requirement for every section in the economy. Resource liability is brought into balance by centrally determined allocation as opposed to price signals (see Vactav 1977, George 1960). The difference between the Chinese and the USSR is that while in USSR planning is top down; planning is less centralized and occurs mostly at the level of the people’s communes in accordance with specific production and consumption needs or requirements.

In the USSR on the other hand, planning follows a bureaucratic pyramid in which, with the exception of the household sector, all significant production and distribution decisions are made by a central planning commission at the top. The bottom of the pyramid consists of hundreds and thousands of individually operated by publicly owned firms and farms whose main task is to execute the directive of the commission and fulfill the production target set from above.

The command or centrally planned economy is an economic system which relies exclusively on governments to allocate resources and to answer all questions of allocation. This theoretical ideal has no markets, government makes all allocation decisions. Contrasting with theoretical ideal is a pure market economy in which markets make all allocation decisions. Under a command economy, a central authority determines what goods should be produced, how much should be produced and the price at which the goods will be offered for sale. The command economy is a key feature of any communist society. China, Cuba, North Korea and the former Soviet Union are examples of countries that run command or centrally planned system (Baghebo, 2012).

Since its establishment in 1949 and until the end of 1978, China maintained a centrally planned or command economy. The state directed and controlled a large share of the country’s economic output; the state set production goals, controlled prices, and allocated resources throughout most of the economy. By 1978, nearly three-fourths of the country’s industrial production was produced by centrally controlled state-owned enterprises (SOEs) according to centrally planned output targets. There were almost not private enterprises or foreign invested firms in China. It was estimated that China’s real GDP grew at an average annual rate of about 5.3 percent from 1960 to 1978. Because the central planning economic system and government economic policies put little emphasis on profitability or competition, the country’s economy was relatively stagnant and inefficient. As a result the Chinese living standards were substantially lower than those of many other developing countries. The Chinese government took steps to improve economic growth and raise living standards in the late 1970s.

From the 1970s, the Chinese experience with socialism has come to be what is now referred to as a “socialist market economy” in which the “commanding heights” remain in state ownership, but a substantial portion of both the state and private sectors of economy are governed by free market practices, including a stock exchange for trading equity. The free market is the arbitrator for most economic activity, with economic planning being relegated to macro-economic government indicative planning that does not encompass the microeconomic decision-making that is left to the individual organizations and state-owned enterprises. This model includes a significant amount of privately owned firms that operate as a business for profit, but only for consumer goods and services.
4. Comparison between the Yugoslavian Market Socialism and the Command or Centrally Planned Economy of China and Cuba.

The Yugoslavian market socialism differs from the command or centrally planned economy of China and Cuba. However on the other hand, there are some inherent similarities between them.

Firstly, in disparity, the Yugoslavian economy is a decentralized system such that the ownership of enterprises is accomplished through various forms of worker cooperatives. Planning of production and distribution is done from the bottom-up by local worker councils in a democratic manner. The system is self regulatory. On the other hand, the command economy of China and Cuba is centrally regulated, such that major economic decisions are done by a central authority.

Secondly, the command economy of China and Cuba emphasizes more on collective benefits, rather than the requirements of a single individual. Under such circumstances, rewards, wages and other monetary benefits like bonus are distributed on the basis of the joint rendering of services. This is how planned economy actually eradicates the profit-making and exploitation at individual levels, unlike the Yugoslavian market socialism (see Koopmans 1971, Hayek 1940, Vactav 1977, George 1960 for these and related issues).

Thirdly, the command economy of China and Cuba is just opposite to the Yugoslavian market economy, with respect to the basic money-making approaches. While the Yugoslavian market economy tends to multiply the wealth of a nation through the gradual process of evolution, the command economic system of China and Cuba prefers deliberate planning of the entire money-making process for better results. In fact, such sincere economic planning in the long run proves beneficial to improve the economic conditions of a country.

Fourthly, the Yugoslavian market socialism creates room for a ‘market’ where decisions as regards production, distribution and consumption are taken, whereas in the command or centrally planned economy of China and Cuba, such decisions are purely done and controlled by a central authority.

Fifthly, while in the Yugoslavian market socialism, the substantial part of the economy are left in the hands of the private sector, in the command economy of China and Cuba, the means of production are purely owned and controlled by the government. Despite the above disparities between the Yugoslavian model of market socialism and the command economy of China and Cuba, certain similarities exist in both models. For instance, both economic models have some elements of socialism incorporated in them. Both models allow for joint (private and public) ownership of economic factors, though private ownership is so insignificant in the command economy of China and Cuba.

5. Lessons for other Developing Countries

i. In order to avoid the pitfalls associated with the two models above, developing countries must learn to strike at the root of the evil. Centralized planning by administrative means was and is the Yugoslav contention. In order to break the stranglehold of bureaucracy over a socialist society, developing countries must set into motion processes of self-management of producers and self-government of citizens everywhere, and self-management of economic units can only be real if these units are permitted to retain the largest possible part of the social surplus which they produce. They can do this only if they escape to the maximum extent direct administrative control by the planning authorities. Hence the maximum of autonomy and of competition between economic units, and the maximum use of “elastic” market mechanisms by the planning authorities, become the chief characteristics of the ideal “model” of a socialist economy: “In order to avoid the evils of bureaucracy, initiative and responsibility have to be transferred downwards and kept close to the place of direct work. Consequently, the enterprise, personified by the workforce, becomes the basic economic [decision making] unit of an efficiently planned economy”.

ii. For both the purposes of achieving the maximum social equality possible, and for purposes of output and income maximization on a national scale, demand and supply equalization should be achieved in many fields a prior through the central plan, and not a posterior through the market. This holds for all goods and services in respect to which it is considered a social
priority to quickly attain certain average consumption levels, as well as for the main means of production. Developing countries should therefore learn and believe that all large investment projects should be centrally determined, and that this implies to a large extent “administrated” prices of equipments. Central planning should use market mechanisms to adjust periodically prices of certain consumer goods within these limits, and not beyond them.

iii. Developing countries should learn to formulate a model which would have a tremendous social advantage; a model that would strengthen and unify the working class, not to fragment or even to atomize it, like both the Yugoslav and Chinese models. It would be obviously more ethical, because it would achieve a much larger equalization of income, and all necessary sacrifices would be consciously accepted sacrifices. And it would in addition, avoid most of the waste of resources which both bureaucratic mismanagement and market mechanisms inevitably entail. It would therefore come much nearer to a maximization of output and income than either of the above two models permits.

CONCLUSION:
A comparative study of the various models of socialist economic systems of Yugoslavia market or democratic socialism and the command or centrally planned economy of China and Cuba are not pool apart . All the countries in the study had their own experiences which initially were inimical to progress but through the adoption of dynamic and consistent economic adjustment policies were able to attain a remarkable level of economic development and became models for comparative economic analysis such as the people’s republic of China.

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