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"SHAREHOLDING" IN YUGOSLAV THEORY AND PRACTICE*

by

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"SHAREHOLDING" IN YUGOSLAV THEORY AND PRACTICE 1)

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Introduction

In spite of a variety of new mechanisms introduced into the Yugoslav financial system in the past 35 years, there is one financial instrument - equity shares - that has never been considered a possible form of financial innovation. The reasons clearly emerge from the existing system of property rights. After the official abolition of state property in 1953, all capital assets became social property. Enterprises were not granted property rights, but only the right to use socially-owned resources. These regulations have remained intact in the course of the next decades. The 1976 Associated Labour Act (ALA) clearly states that "no one may acquire the right of ownership over social resources" (Art. 12).

Nevertheless, the economic reform implemented during the 1970s resulted in the adoption of several arrangements that resemble shareholding schemes. The main purpose of this paper is to discuss some of these arrangements (part 1). Discussions about shareholding in Yugoslavia will then be reviewed, the writings of E. Kardelj, as well as recent proposals of Yugoslav economists (part 2). A survey on workers' opinion about shareholding is also presented (part 3). Finally, some concluding remarks are made.

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1. Existing arrangements and their implementation

Among the various problems that emerged after the 1965 economic reform, were also the ones of growing concentration of economic power in banks, large trade organisations and monopolistic groupings, and the related problems of "group-ownership" tendencies and of "autonomous" financial capital. These problems were evaluated by Yugoslav authorities as being directly in conflict with self-management, because they implied rental income for privileged classes, and the deprivation of workers of a part of income produced. Consequently, the 1970s economic reform was supposed to: first, enable enterprises to appropriate a larger part of income; and second, decrease the role of banks, by introducing new forms of mobilizing savings that would not necessarily require their intermediation. The pursuing of both of these objectives resulted in arrangements that resemble, or could have resembled shareholding.

1.1. Workers' "shareholding"

At the enterprise level, a solution was sought in introducing a system of workers' remuneration based on the contribution of not only their "live" (current) labour, but also "past" (embodied) labour. "Past labour" is a synonym for capital. Since workers directly contribute to its increase through their investment decisions, they ought to be rewarded by receiving a part of income on this basis. The scheme was thus intended as an incentive for stimulating workers' willingness to invest.

In all of the major documents adopted during the 1970s - the 1971 Ammendments, the 1974 Constitution and the 1976 Associated

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Labour Act - workers' past labour is explicitly recognised as a criteria that determines the level of personal incomes. However, legal provisions on past labour are very general. 2) They clearly state only that past labour should be rewarded, but there is no indication as to **how** an individual's contribution to capital increase should be measured, according to which **criteria**, and in which **form** it should be rewarded. Details concerning past labour rewards ought to be specified in self-management acts of the enterprise, which are firm-specific, the only restriction being that these acts may not be contrary to social compacts concluded by the enterprise (Art. 128, ALA). And without precisely defined methods on rewarding past labour, it is not surprising that in every-day practice the scheme has been implemented in a rather simplistic way.

The common feature is that past labour rewards are usually determined in proportion to seniority. For each year of employment, usually starting with the second year, a worker is given an additional percentage (around 0.5%) of his personal income.3) However, such a reward is usually linked to the **total** number of years a worker has been employed in the social sector, and hence the scheme does not guarantee a worker's stimulus for efficient management of capital (and investment) of the enterprise where he is employed.

Besides the described mechanism, in some enterprises an idemnity in cash is given to workers that are about to retire. However, given that the amount usually does not represent more than a worker's monthly, or two months personal income, neither can this form of rewarding workers represent an adequate compensation for their investment decisions.

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Several Yugoslav economists have critisized the way the scheme is being implemented in practice, claiming that it represents a misinterpretation of the original idea advanced by Kardelj. In fact, Kardelj himself complained that the scheme did not have a positive impact on workers' motivation to invest, since bonuses on seniority are considered more as an instrument of social policy, a part of the distribution system, than as an economic right of a worker linked to his investment decisions (1971a, p. 248).

Since the implementation of the past labour scheme did not result in its further elaboration in practice, the need was felt to regulate the issue further. After long discussions and 7 versions of a law on past labour 4), in 1982 the "Law on Enlarged Reproduction and Past Labour" (LERPL) was finally adopted. However, in spite of 24 articles devoted specifically to past labour, the Law does not clarify some of the crucial issues.

The procedure for determining the amount of income to be devoted to past labour rewards is rather complicated (see Art. 60-69). This part of income is determined on the basis of not only 8 obligatory indicators for evaluating obtained business results, as prescribed in Art. 141 of the ALA, but also of other three criteria (Art. 65). The indicators are not only numerous, but are not mutually consistent: already the ones contained in the ALA have been demonstrated to be conflictual (see Babic, 1982). What is surprising is that these resources need not necessarily be used in the enterprise that has realized them (Art. 67, 68), and need not be devoted exclusively to rewarding past labour (Art. 69).

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Furthermore, the Law does not ensure that an individual worker will be rewarded according to the quantity and quality of past labour he has **personally** contributed (see Art. 70-83). Two out of three elements that determine a worker's contribution are based on his contribution **together** with other workers, and thus the incentive is more of a collective, than of an individual nature. Moreover, the Law does not offer concrete instructions on how to measure a past labour contribution. The only significant innovation of the Law respect to the ALA is the possibility of realizing the right to past labour after a worker's termination of employment (Art. 78), probably in order to legalize what is effectively being done in practice.

Since existing legal norms on past labour were not satisfactory, a new system is presently being elaborated. An attempt has been made to define the part of income to be devoted to past labour rewards more accurately, by linking it to obtained "rentability" of an enterprise, "rentability" being defined as a ratio between accumulation (net savings) and average utilised business assets (capital).5) However, the rentability rate, instead of being calculated as a ratio between accumulation and **total** business assets of an enterprise, ought to have taken into account only returns from **own** capital (Dumezic, 1986). It has finally been recognized that the seniority criteria is not satisfactory,6) but past labour rewards are simply the positive difference between gross personal incomes and personal incomes for current labour, to be distributed in every enterprise that allocates a part of net income to accumulation. Hence, in **all** enterprises, as a minimum to be allocated

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to accumulation is a legal requirement. Therefore, even if an enterprise allocates a minimum to accumulation, and incurs losses from investing these resources, it will **reward** its workers, instead of penalizing them!

In conclusion, while the past labour scheme might have contributed to the appropriation by the enterprise of a larger part of income produced, it has done little to increase a worker's motivation to invest. Even if it had been introduced in a more operational way, by directly linking the amount of income to be devoted to past labour rewards to efficiency of invested resources, it would not have motivated workers to invest, because of a specific obligation linked to the use of socially-owned resources. Yugoslav firms are obliged to maintain the value of their fixed assets, in the sense that all reductions caused by the sale of assets, or diminished in the course of operation, have to be replenished. This restriction has a negative impact on workers' willingness to invest: it implies, as first suggested by the theories of Vanek (1971) and Pejovic and Furubotn (1969-1980) (see Uvalic, 1986), that the collective will not be able to recover the principal of an investment in their enterprise, as such resources, once invested, become part of socially-owned capital stock that subsequently cannot be decreased.

In reference to shareholding, had Kardelj's scheme been implemented in a way as to link more directly past labour rewards to capital returns, the scheme could have effectively had had certain characteristics of shareholding. Workers would be rewarded for investing retained earnings in capital stock (instead of distributing

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them in the form of personal incomes), by participating in the firm's profits in proportion to investment yields. A worker would be able, just like a shareholder, to count on a personal return on a part of equity of the enterprise, while the firm would be able to obtain, similarly to what is obtained by the issuing of shares, additional capital.

However, an important limitation would remain concerning the possibility of converting shares into liquid assets. The collective would not be able to cash in past labour rights, as workers are not permitted to liquidate the enterprise voluntarily and distribute the proceeds, and neither would the individual worker be able to cash in these rights, as he cannot transfer them to other individuals. Therefore, under existing institutional arrangements in Yugoslavia, past labour rewards could at best have taken the form of non-transferable, non-marketable dividends.

1.2.Other forms of shareholding

The 1970s economic reform introduced several other instruments that were meant to mobilize savings externally, thus allowing a form of shareholding by outsiders.

At the enterprise level, one of the possible forms of the so-called "pooling of labour and resources" is for one enterprise to invest in another. What is effectively being pooled is the investing enterprise's financial resources with labour and resources of the enterprise invested in. Once the pooling of labour and resources is established through the signing of a self-management agreement, the participants are supposed to jointly share income

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and risk, and influence the business and development policy of the firm (ALA, Art. 64-65).

However, legal provisions of the ALA do not seem very stimulative for the investing enterprise.7) First, although the investing enterprise is supposed to receive both a refund of invested capital and a compensation (Art. 84), the enterprise invested in is given priority in income distribution (Art. 82).8) Second, the possibility of a permanent share in the income of the enterprise invested in is clearly excluded (Art. 83, 85).9) Third, contrary to the envisaged "joint bearing of risk", it is the investing enterprise that bears all the risk: once the time-limit of the contract has expired, it has no further rights in recovering invested capital, while the enterprise invested in is ensured, in advance, even a part of income for accumulation (Art. 82). Finally, it is even envisaged that the investing enterprise may renounce its right to the restitution of pooled resources (Art. 85).

Therefore it is not surprising that this form of pooling resources has not had a significant role in stimulating investment in other firms. Out of total long-term investment of firms, in 1984 only 13.2% had been invested in other enterprises (SZS, 1986, p. 43). In 1981, long-term bank credits to enterprises were eleven times higher than long-term pooled resources among enterprises, while the ratio between short-term obligations of enterprises on the basis of pooled resources, and different kinds of bonds, bank credits and other direct credits, was 1:1.5:10:20 (Mramor, 1984, p. 82, 86).

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The 1982 LERPL merely elaborates the legal provisions already contained in the ALA. It confirms the temporary character of a contract concluded by the two enterprises, and provides an additional element to protect the enterprise invested in. The only exception to the rule that the partnership ends when the time-limit of the agreement has expired, is "in cases that the time-limit has been overpassed by the fault of the enterprise invested in" (Art. 39). Therefore, if the enterprise invested in encounters difficulties in realizing a joint project, it can prolong the duration of the contract, and hence effectively postpone its obligations towards the investing enterprise (instead of being in some way penalized)!

Had the scheme of investing in other enterprises allowed a permanent sharing of income by the two enterprises, and had the joint bearing of risk been ensured, the instrument could have represented a form of shareholding of one socially-owned enterprise in another.

Another form of pooling resources is the type that occurs when a bank is formed. Banks have during the 1970s been transformed into "service agencies" of enterprises, operating under direct control of its founding members. A bank can be founded by enterprises and self-managed communities of interest (prior to 1977, also by sociopolitical communities), which sign a self-management agreement on the bank's foundation (ALA, Art. 16). The founders of a bank **may** contribute an initial amount of capital, but this is from 1977 no longer obligatory. Founding members guarantee all obligations of a bank with their own resources, and thus jointly carry the liability for the bank's operations. All decisions are made not by workers of

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a bank, but by the bank's members, which all have equal say at the general assembly, irrespective of invested capital.10) After operating costs have been covered and resources set aside for the bank's work community, all new income is distributed among founding members, both depositors and borrowers, as it is considered that both borrowing and lending contribute to the bank's income. The distribution of income is carried out proportionately to the "contribution" made by these organisations, to be determined in a self-management agreement (ALA, Art. 89).

For the different forms of pooling of resources, the 1971 "Law on Securities" envisages the use of certificates of pooled resources, which entitle the bearer to participate in both profits and management. These certificates have a minimum redemption period of 10 years, can be issued by an enterprise, a bank, or an insurance company, and are transferable to other enterprises, banks, and sociopolitical communities. Certificates issued by an enterprise can be subscribed only by another enterprise or a foreign firm; those by a bank, by enterprises, communities of interest, and sociopolitical communities; and by an insurance company, in addition to the above categories, also by banks (Art. 16-23, 46, 52-55, Law on Securities).

Pooling of financial resources in a bank resembles shareholding insofar as it ensures founding members participation in profits, management, and the joint bearing of risk, but differs fundamentally from shareholding because it gives such a right to all members, not only depositors, but also borrowers, and hence irrespective of invested capital.

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The certificate of pooled resources, when compared to other types of securities existing in Yugoslavia, is undoubtedly the one that comes closest to shares. However, in spite of being a long-term security, this certificate is also redeemable (as all other types of securities in Yugoslavia), and it cannot be subscribed by households.

At the level of the individual, existing laws envisage different ways of mobilizing private savings of individuals in intermediate forms of enterprises, based on a mixture of private capital and the self-management system. The first of these forms is a "contractual organisation of associated labour" (COAL), in which an individual pools his labour and privately-owned resources with labour of other workers on a self-management basis. The individual receives a compensation for the resources he has invested, participates in profits, and has the right to run, as manager, the business of a COAL for which he receives personal income. Private capital in a COAL can be contributed by more than one individual.

Although the ALA envisages the participation of different organisations with their socially-owned assets in the establishement of a COAL (Art. 306), in practice existing COALs have more often been composed of solely private capital.11) Two features distinguish a COAL from small firms of the private sector. First, in a COAL there is no limit on the number of workers that can be employed, and hence, COALs are often much larger enterprises than those of the private sector. Second, COALs must respect certain rules which apply to normal social-sector enterprises, which may be regarded as unstimulative for the individual investor. Thus workers

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in a COAL are ensured self-management rights; their personal incomes are given priority in income distribution (the part paid to the manager on account of ownership, other than his personal income, is a residual); and the capital maintenance requirement must be respected (Art. 311-312). Furthermore, the manager's rights on account of ownership are not clearly defined, as they are determined by the contract on the establishment of the COAL (Art. 312). Finally, a COAL has been envisaged as a transitional form of enterprise to be gradually transformed to a socially-owned firm: workers have the right to buy the owner out over time, by paying the historical cost of capital invested.12)

The individual investing his capital in a COAL can be compared to a shareholder, as he does receive a part of profits on account of property rights. Nevertheless, given that such participation is only temporary, and effectively puts the individual in a position of a lender, neither does this instrument provide a permanent basis for income on account of ownership.

Evidence on COALs reveals that from 23 in 1976, their number has risen to 59 in 1978, to 156 in 1982, and to 225 in 1984 (SZS 1986, p. 32), the latest figure representing about 0.01% of the total number of organisations in Yugoslavia (all forms included).

The second instrument for mobilizing private savings envisages that firms may collect financial resources from citizens (ALA, Art. 91). A citizen that invests his savings in a socially-owned enterprise has the right to recover invested capital, and to receive a compensation in the form of interest or other benefits. If these

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resources are used for creating new work places, a labour relationship with the citizen may be established.

The scarse information on this instrument contained in the ALA effectively puts the citizen in the position of a shareholder. However, the 1982 LERPL took care of excluding such a possibility. Besides specifying what is intended by "other benefits" (employment; housing and training; using services of the enterprise), the Law clearly states what such a benefit may **not** include: that an individual enjoys the benefit for an unlimited amount of time; that he participates in management; and that he participates in income distribution, other than receiving interest (Art. 46).13)

A special law regulating private investment by citizens has been adopted in 1986.14) The law contains both stimulative and unstimulative elements. On the one hand, it envisages that instead of employing the investor, a member of his family may be employed. On the other hand, it specifies that the investor has the right to start recovering invested capital only after a period of three years, thus limiting the liquidity of such an investment.

In conclusion, all of the discussed financial instruments bear some similarities with shareholding, as they all, more or less successfully, play the role that primary distribution of shares usually plays in a capitalist economy: of raising additional financial capital. However, in the absence of a secondary stock market, these schemes do not play one of the essential roles equity shares play, or **ought** to play in the capitalist economy, of providing a pricing mechanism by which enterprises value themselves.

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2. Theory: discussions on shareholding

2.1. Kardelj's views on past labour

It was Edvard Kardelj who proposed, in the early 1970s, the introduction of the concept of "past labour". Kardelj preferred using the term "past labour" instead of "social capital", "accumulation", or "means of enlarged reproduction", in order to emphasize that such a remuneration scheme would not be linked to capital, but to labour (see Kardelj, 1978, p. 52-53).

Kardelj's proposal at first provoked severe opposition. The most dogmatic ideologists identified the very notion of "past labour" with the concept of private shareholding, a capitalist category totally in conflict with marxism, socialism, and self-management.15) Their main argument was that since, in line with the Marxist theory of value, it is only live labour that produces new value, live labour should be the exclusive basis for rewarding workers. A remuneration scheme that includes the contribution of past labour (capital), would imply earning income on the basis of investing capital and not on the basis of labour, and hence remuneration on the basis of property.

Kardelj strongly critisized such views, regarding them a misinterpretation of Marx. Although live labour is the only creator of value, a part of surplus value created by live labour (profit on capital, bank profit and rent), in spite of not producing new value, does represent value, and has a specific use value, as more efficient management of social capital creates more favourable conditions for the rise of live labour's productivity (1978, p. 55-56). Rewarding past labour cannot be interpreted as a scheme

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independent of workers' live labour, but on the contrary, because "it is clear that you need to open the tap of a cask in order to enable to flow of wine" (1971, p. 139). The essential point is to prevent that workers fill the cask of social property with their work, while someone else opens the tap. Hence, "It is not a question of whether past labour produces value or not, but a question of who disposes of income" (1971, p. 141).

Further critisizing "state-ownership conservatism", Kardelj recalled that Marx did not identify state ownership with social ownership, but considered social property should also enable a form of individual property. Therefore, Kardelj wrote: "Social property is...common property of all working men, and therefore also personal property of each individual worker in the scope and form in which it ensures him the right to work with social means" (1978, p. 24). Workers collectively dispose of means of production, but individually enjoy the fruits of their labour. However, social property is not a monopolistic right of any individual subject (the state, the working collective, the individual worker), but property of everybody and nobody, i.e. common and personal. This is the only way that social property would really "belong" to all members of society (1972, p. 318; 1978, p. 11, 23). Nevertheless, social property must not be interpreted as a no-property category, since "as long as appropriation exists, property will continue to exist" (1972, p. 293).

The post-1965 alienation of past labour related to "group-ownership" tendencies had according to Kardelj represented a form of managerial capitalism. Awarding workers' past labour would be

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the only way of really implementing self-management (1971, p. 137). Workers should receive an award for good management of social capital, but should also bear the consequences deriving from its bad management (1978, p. 141).

Kardelj therefore regarded the system he was proposing a way of avoiding the negative effects of both state ownership and "group" ownership, but was also very explicit in emphasizing that the scheme would be fundamentally different from private shareholding. Indeed, he firmly rejected proposals on citizens' shares in socially-owned enterprises.16) Private shares imply a permanent right to exploit someone else's labour, while the proposed system would be based on the right of a worker deriving from his own work, thus definitely eliminating the old relationship between the worker as hired labour, and the owner or manager of capital (1978, p. 53). Personal income of workers would not be linked to the amount or cost of invested capital, because this would cause the division of social capital into shares, but would depend on obtained results, returns of an investment, in order to make the worker aware that his material position depends on his choice to accumulate. Workers would not receive this part of income as proprietors, but as managers of social capital, and thus would be stimulated to manage it rationally (1978, p. 68, 133-5).

Concerning the concrete form of rewarding past labour, Kardelj mentions shares and bonds, "a secondary problem" for which "concrete solutions must be found" (1971, p. 140). And since Kardelj's ideas concerning the issuing of workers' bonds had

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"provoked a real affair" (to use Kardelj's own words), Kardelj insisted that what the worker would receive on the basis of such a receipt would be a minimum of an incentive character. Hence, "it is absurd to identify a worker that consumes these means in the form of personal income with a capitalist that appropriates them on the basis of a share due to private capital" (1978, p. 70).

The main merit of Kardelj's writings on past labour is his emphasis that being rewarded for investment decisions is not only compatible with socialism, but is one of the necessary requirements for capital to be used rationally. Nevertheless, Kardelj's writings are not always sufficiently consistent. One of the central points that provokes confusion is the relationship between "social" and "individual", whether referring to property, income, past labour, or other categories he uses.

Thus Kardelj contemporaneously speaks of property "of the whole society"; of social property as a form of personal property; and occasionally, in spite of all his criticism of "group-ownership", seems to consider the enterprise the main subject of property rights.17) Similarly, Kardelj emphasizes the social character of income. Income is in social property, belonging to all workers and to each of them individually, since it is the result of labour of the whole society, the result of social productivity (1978, p. 36-44). The same type of ambiguity is also present in reference to past labour. Kardelj does not make a clear distinction between "social past labour" and "individual past labour", as his definitions are often unprecise, ambiguous, even contradictory.18)

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Kardelj fails to distinguish between initial capital endowment given to enterprises by the state when social property was introduced, that could be considered "social property", the result of "social past labour", and thus ensuring a part of income that is "social", and successive increments of capital arising from "individual past labour", for which workers ought to be rewarded depending on realized income of the individual enterprise. In this sense, Kardelj is not explicit enough in emphasizing the individual basis of the scheme: because if the scheme is to be applicable in a functional way, the subject of property cannot be the whole society, income realized that serves as the basis for determining workers' past labour must be income of the individual enterprise, and past labour rewards ought to be linked to the individual worker's contribution.

Kardelj is also ambiguous concerning the relationship between the proposed scheme and socialist objectives. A way of avoiding tendencies towards private property relations would be to implement simultaneously not only the principle of distribution according to work (both current and past), but also the principle of workers' solidarity (1978, p. 141).

Finally, in order to incorporate his scheme into a planning mechanism of coordination, Kardelj proposes that rewarding workers' past labour "would every year be stabilised by the social plan" (1978, p. 65), and that "a worker does not have the right to, through his personal income, appropriate a part of social capital ... since self-management agreements and social compacts should regulate distribution relations" (1978, p. 141).

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In conclusion, it seems that Kardelj encountered some difficulties in incorporating the envisaged individually-based system of workers' remuneration of past labour, into a more general framework that takes into account social interests, socialist objectives, and a planning mechanism of coordination.

2.2. Recent proposals on shareholding

Several Yugoslav scholars have recently been proposing the introduction of a form of shareholding, mainly following Kardelj's ideas on rewarding past labour. S. Babic (1983) is one of these economists that openly advocates "shareholding of past labour". In line with Furubotn- Pejovich's theory on investment of the labour-managed firm, Babic argues that a self-managed collective entrepreneur will be less willing to invest respect to a situation in which he would be able to recover the principal, and could acquire a permanent right on investment returns. He points to one of the contradictions of the 1976 ALA: that it explicitly prohibits shareholding by producers, but not shareholding by citizens. Such norms that deliberately prevent shareholding entrepreneurship raise barriers to investing income, and thus stimulate the outflow of capital from accumulation into consumption.

In order to increase an entrepreneur's motivation to invest, both in his own and another enterprise, and increase the mobility of capital, Babic advances two principle proposals: to introduce a parametric price for the use of social capital, thus ensuring the social character of property, and to allow shareholding entrepreneurship. If shareholding was introduced, resources obtained through the parametric price of capital could be left at the

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disposal of the enterprise. The entrepreneur would be permanently excluded from consuming this part of income, but would become indifferent whether he will invest it in his, or another enterprise, as long as he can recover the principal of an investment.

Whereas Babic's proposal would probably resolve the problem of capital mobility, it would not eliminate the essence of the under-investment problem. Babic seems to propose that resources obtained through the tax on capital would have to be used for investment. If this is imposed on the firm, the decision to invest hardly reflects a **voluntary** choice of the collective (contrary to Furubotn-Pejovich's assumption that workers decide on the use of income on a fully voluntary basis). Babic's solution **would** ensure higher levels of investment, but through administrative norms and not by influencing an entrepreneur's "motivation to invest".

Furthermore, Babic does not discuss problems related to social property, and in particular, the capital maintenance requirement, which is the main factor that impedes the recovery of the principal of an investment in a Yugoslav-type labour-managed firm (Uvalic, 1986). If regulations on social property are not redefined, Babic's "shareholding entrepreneurship" **per se** would not ensure the recovery of the principal.

Another proposal is advanced by Milovanovic (1986), who develops a theoretical model of rewarding workers' past labour.19) Among the assumptions required for obtaining an equilibrium solution, is the existence of a capital market, and of a compensation for using social capital. The model shows that under free capital market conditions, optimal remuneration of past labour is possible;

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and that an economy without a capital market is inferior respect to an economy having such a market, since it will have lower consumption per employed in all time periods.

Milovanovic also offers a concrete proposal on how to introduce workers' shares in a socialist economy (p. 116-7). He proposes that the state issues initial shares in proportion to the value of social capital, and distributes them to the population. What would then follow is the trading of shares on an organized market. Workers would in general own shares of their own firm, but could also buy shares of other firms. Such ownership would not give the worker any right in management, which remains a self-management right of those employed, but would only guarantee a dividend depending on the firm's business results. When retiring, a shareholder would not abandon his share; only after a worker's death do his rigths cease. Shares would not be transferable to heirs, but would go into a state fund from which each 18-year old citizen would be given a minimal amount of shares. In this way social resources would in a real sense become "social",while workers would become permanently interested in investing.20)

Milovanovic's proposal is appealing, but fails to clarify several issues. How are shares valued on the market, and would they reflect the net worth of an enterprise? What would be the incentive for outside shareholders to buy no-voting shares? How would a possible divergence of interests between workers and outside shareholders be resolved? According to which principles are initial shares distributed to the population? Would new shares, corresponding to the increment in social capital, be equally accessible to

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all? Or would workers employed in the enterprise issuing new shares be given priority, in order to ensure that the majority of shareholders remain workers employed? Otherwise, the underinvestment problem would not be resolved: workers could vote for consumption rather than investment, while the outside shareholder, having no vote, would be powerless to press for more investment.

T. Nikolic (1986) argues that workers' shareholding has net advantages over credit relations that have enabled the present high indebtedness of the economy. Workers as co-owners of social capital would be interested in its increase, because dividends on the basis of past labour would directly be linked to realized profits, and because their personal property (value of shares) would depend on the efficiency of its use. The introduction of workers' shareholding would not only prevent inefficient investment by political bureaucracy, but would resolve the "enigma" regarding the unprecise definition of social property, as each individual subject would need to bear risk and responsibility. Social capital would increase depending directly on the creation of domestic accumulation, and hence further indebtedness would be prevented. (This is doubtful, however; several economies with share capital have not avoided the problem of high external debt, e.g. Brasil, Mexico, etc.)

According to Nikolic, workers' shareholding would not represent the negation of social property, since it is directly based on Marx. When describing cooperative factories, Marx spoke of a worker having two functions: as the proprietor of his own means of production, he is a capitalist and receives profit, and as a worker, he

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is hired labour and receives a wage. However, Nikolic does not discuss the problem of how to reconcile social property with the concretization of property rights and workers' share capital. In fact, he finds a compromise by using an ambiguous term: "workers' shareholding social property".

A concrete solution to this problem is offered by Labus (1987). Labus considers that "the crisis will not be overcome without the change in effective property relations" (p. 6), and thus proposes to clearly distinguish between macro and micro interests and competences regarding property, to be divided between working collectives and state organs. In order to prevent "group-ownership" tendencies, a price for the use of capital should be introduced.

On the other extreme, several economists have attacked such proposals, mainly on ideological grounds, regarding shareholding a step backwards leading to reprivatisation and recapitalisation of socialism. M. Korac (1986) has gone as far as to calculate what the introduction of workers' shareholding could cause in terms of capital losses: social capital, instead of increasing 6 times in the next 40 years, would only increase 1,8 times (p. 188).

Korac's calculations are based on the simplified assumption that workers would distribute the larger part (two thirds) of accumulation in the form of dividends, that would thereafter go into their personal consumption, thus considerably decreasing the average accumulation rate of the economy. However, he offers no arguments why this assumption should hold.21)

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2.3. Current discussions on shareholding

Besides the above proponents of shareholding, other Yugoslav scholars have advocated its introduction, at discussions concerning the present economic reform. Although these proposals are of an informal nature, they are interesting because they reveal that a lively debate on shareholding is presently going on in Yugoslavia.

These discussions illustrate a revival of interest in traditional financial instruments, and a generally favourable attitude towards the diversification of property rights. The concept of social property, that has for years been accepted in a rather acritical way as one of the fundamental features of the Yugoslav economy,22) is for the first time being openly critisized. Nevertheless, most of these proposals seek solutions for introducing shareholding without affecting the socialist features of the economy, e.g. by introducing shareholding on a limited scale, either in specific sectors, or in a mixed-property sector.

At one of the more interesting discussions devoted to the mixed economy (RTD, 1986), some economists regarded shareholding fully in line with the present economic reform. B. Kovac proposes the division of the economy into three sectors: social, private, and mixed. The social sector could be given 5-6 years, a transition period during which conditions for the survival of firms would be tightened, and enterprises not surviving would be liquidated, while the establishment of a mixed sector with diversified property forms, would stimulate competition.

Other participants of the discussion were more sceptical, because of ideological reasons (Mencinger), negative consequences

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shareholding may have, by increasing competition, on socially-owned enterprises (Inic), absence of citizens' confidence in the state without which a shareholding system cannot function properly (Jerovsek), incompatibility between a stock market and the present system in which the government "freezes" and "unfreezes" the entire economy every three months (Labus), and eventual loss of control of the government, which can easily order 200 enterprise managers what to do, but not two million shareholders (Labus).

Apart from ideology, the central argument that seems to worry Yugoslav economists is that shareholding may be in conflict with self-management. Labus (in RTD, 1986) argues that since shares imply private property and owners' risk, no one would be willing to invest in a share of a firm unless he can retain some form of control in management. If this control is not ensured, shareholding capital would remain at a minimum level, but such control would be in conflict with self-management. Instead of shareholding, Labus considers that a system of bonds, which does not imply the participation in management, has a better chance of successfully being implemented, such as the one existing in Mondragon cooperatives.23)

Others, however, consider that the conflict between shareholding and self-management could be resolved. Bozovic suggests the parallel participation in management, of both workers and capital providers (in Lakicevic, 1987a). Nikolic and Raic (in Nikolic, 1986) propose the establishment of an assembly of shareholders in workers' councils of enterprises, which would have certain rights concerning the election of managerial bodies and the economic policy of the firm.

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Much of the present discussion, however, is characterised by a confusion between different proposals: workers' shareholding, shareholding by outsiders on a limited scale, shareholding by both workers and capital providers, alternative forms based on existing mechanisms, etc. It is important to emphasize that these distinct forms would have **very different** implications for self-management. The experience of workers' producer cooperatives in Western countries clearly confirms the full compatibility between workers' shareholding and self-management. As to external shareholding, it need not necessarily be in conflict with self-management. If it was introduced on a limited scale, e.g. only in a mixed property sector, there is no reason why this (smaller) part of the economy should be organised along self-management principles. However, even shareholding on a larger scale could be reconciled with self-management (disregarding ideological obstacles to such a solution).

Shareholding does not imply the direct involvement of investors in the management policy of the firm. In spite of the fact that the stock exchange disciplines managers who diverge too much from shareholders' interests, this is a form of indirect influence. Such occasional participation of shareholders in decision-making need not imply the usurpation of workers' managerial rights. A solution could be sought in two classes of shares, having disproportionate voting rights.24)

An alternative to parallel decision-making would be not to give external shareholders voting rights, voting remaining the exclusive competence of workers employed. A crucial problem of this solution regards incentives for investing in no-voting shares.25)

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Judging from the Yugoslav experience, however, a worker that already realizes his self-management rights in his own enterprise, where he is daily involved in a series of time-consuming meetings, may be happy enough to invest in no-voting, profit-related shares of other enterprises, that do not require his participation in additional decision-making, yet could ensure higher returns than savings deposited in a bank. As to the stock market, one possibility would be to have a market for workers' voting shares, parallel with a market for external shareholders' non-voting shares. 26) Alternatively, as this solution may not easily be applicable in practice, a secondary market only for no-voting shares would still be better than having no market whatsoever. However imperfect, the going price of a no-voting share would still serve as an indicator on an enterprise's net worth.

Finally, issues related to shareholding have also been discussed at the official level. Although the 1982 Stabilization Programme, the main document of the present reform, does not specifically treat the issue of property, problems related to property have lately been discussed officially by the Party, the government, and other political bodies.27) At a February 1987 meeting of the top Party organ (CCLCY), it has been proposed that individuals (even foreigners) should be permitted to privately own means of production (i.e., other than those in the small-scale private sector), while at a March meeting it has been suggested that "the economic and social situation requires that, in the framework of our socio-economic system, besides social, other forms of property are developed" (Lakicevic, 1987). This resulted in a

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document on property prepared for the Presidency of the CCLCY, which considers how to incentivate private investment on a wider scale, especially of Yugoslavs employed abroad, and how to encourage existing mixed property forms. In another document prepared for the Federal Executive Council it has been proposed to ensure more rights to an enterprise investing in another (Lakicevic, 1987a).

Therefore, it is considered that as long as the socially-owned enterprise continues to represent the dominant form of enterprise, shareholding on a limited scale need not threaten the socialist features of the economy. Nevertheless, there is still a lot of resistence towards changes in this direction. For example, the draft of the law on enterprises with foreign capital (a type of mixed property enterprise, primarily meant to attract capital of Yugoslav workers employed abroad) has for the moment not been accepted, on the basis of the argument that Yugoslav emigrants, having the exclusive right to invest in such enterprises, would be privileged respect to workers employed in Yugoslavia. The history of economic reforms in socialist countries teaches us, indeed, that there is a long way from proposals to elaboration and implementation.

3.Workers' views

Finally, it is of interest to see how workers feel about the notion of past labour. A sociological study based on a questionnaire posed questions to some 3500 workers from Croatia and Slovenia on four specific issues: criteria for rewarding past

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labour, its concrete forms, the character of such a right, and its time dimension (Zupanov, 1977)

Table 1. (see Annexe) reveals that less precise criteria for rewarding past labour, such as personal income and total years of employment, were given priority. In order to explain such an attitude, additional questions were posed on the most precise criteria referring to individual investment by workers. A relative majority regarded this criteria was not in conformity with the law, which may be the reason for not having considered it.

Concerning forms of realizing the right to past labour, 16 different forms were grouped into three subcategories depending on the role past labour rewards should have: entrepreneurial (compensating postponed consumption); self-managed (managing social capital in general); and security-oriented (securing workers' socio-economic welfare). Table 2 (see Annexe) reveals that the most favoured forms of rewarding past labour were those linked to: seniority in a specific firm (E), the firm's productivity (J), housing problems (O), and job protection (P).

The third group of questions concerned the character of the right to past labour rewards: whether it is a worker's subjective right, or a moral right based on solidarity; and whether it is a property right. Responding to the first question, the majority considered it a subjective right of each individual. Concerning the second question, workers thought past labour rights should not be linked to membership in an enterprise. However, a worker being fired for economic reasons should continue to enjoy such a right, but if he is dismissed because of his own fault, the right to past

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labour should cease. Only around 15% of workers thought that the right to past labour should be transferable, although the majority regarded it should be inheritable by family members (around 60% in both republics).

Finally, workers were asked what should be the minimum length of employment required for acquiring the right to past labour. In Croatia 51.5%, and in Slovenia 45% of workers thought 5 years was sufficient. Workers were also asked whether the right to past labour ought to be recognised retrospectively: 50% of Croat, and 39% of Slovene workers expressed themselves in favour.

The results of the presented survey reveal that there might be social constraints to the introduction of workers' shareholding in Yugoslavia. On the one hand, it seems that the Yugoslav worker is risk-averse and is not willing to fully accept the role of an entrepreneur, but prefers the present "implicit" contract with the state which assures benefits irrespective of personal contribution. This is confirmed by workers preferring less precise criteria of rewarding past labour, their negative attitude towards investing personal savings, by answers on forms of past labour rewards, as three out of the four most preferred forms of rewarding past labour belong to the "security" oriented group (and not the entrepreneurial one), and by their attitude towards the right to past labour, which ought to be non-transferable, not linked to membership, but inheritable. On the other hand, workers in Yugoslavia may be happy the way things are: the solutions effectively adopted in practice do not diverge much from the desires of this group of workers, given that the most preferred criteria, personal incomes

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and total seniority, are precisely those effectively applied in practice, while out of the four most preferred forms of rewarding past labour, three can be said to be present in practice (personal income depending on collective productivity, job protection, and social help for housing problems).

4.Concluding remarks

The strongest argument against shareholding in Yugoslavia remains ideology, and not self-management. A permanent right to an income from ownership seems to pose unsurmountable ideological barriers even in a reformed, highly decentralized, socialist economy. Therefore it is necessary to seek for solutions within the existing institutional framework, without officially introducing "shareholding" or "private property rights", and therefore within the context of "social property".

In the case of workers' shareholding, if we accept those views which propose that there is no major distinction between the right to use and the right to own (Prout, 1985; Bajt, 1968; Horvat, 1970), or proposals to specify concrete holders of property rights (Labus, 1987), social property would be maintained but could effectively be treated as collective property. Such a more flexible interpretation of social property would be more acceptable not only because it would respond more to the requirements of self-management, but primarily because it would specify that it is the individual organisation that ought to bear full responsibility for the use of its part of social capital.

Allowing individual workers' shares would be a further step in concretising responsibility, but its plausibility under socialism

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depends on the interpretation of social ownership. Some regard workers' shares are fully compatible with social property and socialism, under the condition that an egalitarian system is provided that permits everyone access to capital (Milovanovic, 1986; and Liska, in Barsony, 1982). Alternatively, workers could instead of shares, be issued profit-related, risk-sharing bonds, equivalent to reinvested income per head, and be rewarded accordingly. Since individuals in Yugoslavia are already permitted rental income (savings deposited in a bank), why shouldn't they be allowed to invest in profit-related securities of their own enterprise?

In the case of outside shareholding, mechanisms already existing in Yugoslavia clearly demonstrate the need for instruments similar to shares. However, what is needed are regulations which would be more stimulative for the investor. For example, since existing arrangements are all characterized by **temporary** participation in profits of the individual/institution contributing capital, a solution could be found in explicitly allowing a continuous renewal of contracts with external providers of capital, thus allowing a "hidden" form of shareholding. Such schemes could be interpreted as a **temporary** (renewable) right to income from **using** socially-owned resources, and not a "permanent right to income from ownership".

What could be achieved through such schemes is a longer-term interest in invested capital, which would have a positive impact on the efficiency of investment, and could also result in greater capital mobility across regions, something that the Yugoslav economy is very much in need of.28)

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It is not a question of returning to capitalism, but of using its financial instruments by adapting them to socialism, and thus enabling the functioning of capital markets also in socialist economies. The crucial issue is not that of introducing private property rights, but of defining alternative mechanisms of incentives that could play the role they play in capitalist economies.

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Notes

1)The paper was presented at the Workshop on Financial Reform in Socialist Economies, European University Institute, Florence, Oct. 1987; and at the Fourth Annual Conference of the Italian Association for Comparative Economic Systems (AISSEC), Sorento, Oct. 1987.

2)A worker's personal income should depend on the contribution "he has made by his live and past labour to the increase in the income of his basic organisation" (**Constitution**, 1974, Art. 20). "A worker's personal income shall be determined in accordance with the ... contribution he has personally made with his current labour and the management of and doing business with social resources, as his own and social past labour, to a rise in the income of his basic organization..." (**ALA**, Art. 126; see also Art. 129).

3)A worker employed, e.g., for 10 years, would receive an additional 4.5% of his personal income on account of past labour.

4)On the different versions and discussions on the new law on past labour, see Buric (1983), p. 121-125.

5)See draft of the "Law on Revenue and Income", in Dumezic, (1986).

6)See draft of the "Social Compact on Income", in Bogetic, (1987).

7)Our observations have been inspired and are in part based on an excellent critique of these issues by S. Babic (1983).

8)"Shares in joint income on account of past labour shall be realized from the part of such income left **after** the allocation of resources for personal incomes and for collective consumption of workers in the basic organizations which have in their business made use of pooled resources" (**ALA**, 1976, Art. 82).

9)"The right to this share (in joint income) shall expire upon the refund of the value of pooled resources and compensation, or upon the expiration of the time-limit determined by the selfmanagement agreement, irrespective of the amount in which the value of pooled resources has been refunded ... Any self-management agreement that does not provide for the termination of the right to a share in joint income when ... pooled resources have been returned together with appropriate compensation, shall be illegal" (**ALA**, 1976, Art. 85).

10)Prior to the 1977 Law on Banking, the number of votes of each founder was supposed to be linked to the amount of capital contributed, but in practice, each founder nevertheless usually had only one vote (see Mramor, 1984). Although the principle has been changed in the new law on banking adopted in 1986, the law is presently again being modified.

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11)Commentators have observed that this is in effect a private enterprise acting under certain legal restraints. Workers sign a contract with the owner, who in turn agrees to conform to self-management rules (Singleton, 1982, p. 199, 203).

12)"If the value of the resources which the manager has pooled in the COAL has been paid out to the manager within the framework of his share in the organization's income ... the manager's right to a share in income on account of his ownership right shall be terminated" (ALA, 1976, Art. 315).

13)This would seem to imply that even if the benefit takes the form of employing the citizen, such an individual is automatically put in a position of a "second-order" worker: not only must his employment be of a fixed duration, but he will be excluded from participating in management and income. This could not have been the intention of the Law.

14)"Zakon o pribavljanju sredstava od gradjana za prosirivanje materijalne osnove organizacija udruzenog rada" Sluzbeni List SFRJ no. 24, 1986, as reported by Labus (1987), p. 139-40.

15)For a detailed survey of the discussions on past labour in the late 1960s, see Buric (1983), p. 80-85, and p. 89-108.

16)Among the proposals for introducing shares in Yugoslavia advanced in the late 1960s, is the proposal by S. Kavcic, who beleived it would be an adequate way for mobilizing citizens' savings; and the proposal of a Working Group of the Federal Assembly (see Korac, 1986, p. 186-187).

17)Thus we encounter sentences such as "We have transferred social capital to basic organisations of associated labour (BOALs)" (1978, p. 67); or "Self-managed associated labour today disposes of the entire social capital, but this social capital is distributed, i.e. decentralized to BOALs" (1978, p. 57).

18)E.g., "Past labour in the wider sense represents that part of value that workers have produced with their current labour, which the society in various ways allocates for accumulation" (1978, p. 52); "Pooling of income is not investment in another organisation, but investment in common social labour" (1978, p. 39-44); "From the results of total social labour a worker ought to have a material benefit on the basis of his own past labour" (1978, p. 49).

19)As a theoretical framework under conditions of certainty, Milovanovic uses the Austrian theory of capital (in a simple Fisher-Hayek form), and under conditions of uncertainty, Hirshleifer's theory of probabilistic decision-making.

20)Milovanovic's proposal bears some similarities with the proposal on "entrepreneurial socialism" of a Hungarian economist T. Liska, first advanced in the mid-sixties (see Barsony, 1982).

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21)If workers **are** co-owners of capital, this would **not** be their long-term interest. Even if a large part of profits is distributed in the form of dividends, mechanisms meant to mobilize workers' savings for productive purposes could prevent the lowering of the accumulation rate.

22)Nevertheless, endless discussions about the real meaning of social property have been going on for years, as disagreement among Yugoslav scholars exists on practically all issues. On these earlier discussions, see B. Horvat (1970), p. 49-52.

23)In Mondragon cooperatives, 85% of capital is contributed by individual workers, whereas the remaining 15% is collective property. However, these are not shares since a worker cannot sell the claim on his individual account, nor cash it before retiring.

24)Workers employed would buy "class A" shares, ensuring more voting rights but lower dividends respect to "class B" shares, sold to external shareholders, with inferior voting rights and higher dividends. Some American stock exchanges (e.g. AMEX) permit this type of dual class capitalization, while others (e.g. NYSE) want to introduce it. However, the present "one-share, one-vote" controversy among American securities exchanges suggests there might be a return to the standard uniform voting rule (see Seligman, 1986).

25)The theoretical literature on the labour-managed firm offers solutions that are supposed to ensure the coincidence of interests between outside providers of capital and workers; see Bartlett, Uvalic, (1986).

26)In a system that combines workers' shareholding with external shareholding, each worker would be a holder of a voting share of his enterprise, but could also buy no-voting shares of his, or other enterprises. A worker leaving the enterprise could either abandon his share receiving appropriate compensation; or, he could sell it to another individual, if the firm wants to employ a new worker of a profile corresponding to the potential buyer of such a share; or, ultimately, he could remain an outside holder of a a no-voting share, or cash it on a secondary market for no-voting shares.

27)Discussions organized by the Central Committee of the League of Communists of both Macedonia (Skoplje, 1985) and Serbia (Belgrade, 1986), by the Presidency of the League of Communists of Yugoslavia (Kumrovec, 1986), and by the Chamber of Commerce (Belgrade, 1986) (see Korac, 1986, p. 187).

28)It is generally accepted, in both Yugoslav and Western literature, that the Yugoslav economy has been characterized by low efficiency of investment and low capital mobility (see, e.g., L. Tyson, 1980).

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Annexe

Table 1. CRITERIA FOR REWARDING PAST LABOUR

C r i t e r i a	% of positive answers Croat.	Slov.	Rank Cr.	Sl.
1.Investment of own capital (workers' savings; personal loans)	18.9	22.8	5	4
2.Rewards for innovation	28.4	21.1	4	5
3.Total personal income	70.5	69.5	1	1
4.Years of employment in firm	40.7	42.5	3	3
5.Total years of employment	61.4	52.2	2	2

Table 2. FORMS OF REWARDING WORKERS' PAST LABOUR

Orientation	F o r m	% of positive answers Croat.	Slov.
Entrepreneur.	A.Worker invests in the firm,receives pers. income and a part of income, depending on profit.	68.2	75.3
	B.Worker puts his savings at firm's disposal, receives interest in advance	51.4	58.6
	F.Worker receives a special reward depending on contribution to past labour while employed in that firm	58.7	55.3
	J.Worker's pers. income depends on productivity in the whole firm	80.3	89.0
Self-managed	K.Worker's pers. income depends on average productivity in the industry (of that republic)	48.3	40.6
	L.Worker's pers. income depends on average productivity in the commune	37.7	29.4
	M.Worker's pers. income depends on average productivity in the republic	40.0	32.0
	N.Worker's pers. income depends on average productivity in Yugoslavia	38.2	23.4
Security	C.All workers receive equal rewards depending on firm's business results	49.8	47.5
	D.Worker receives a special reward depending on total seniority	72.8	68.0
	E.Worker receives a special reward depending on seniority in that firm	72.8	76.5
	G.Worker receives a pension depending on seniority in that firm	51.4	52.6
	H.All workers receive same pension	23.3	18.9
	I.Workers performing similar jobs receive equal pensions	61.5	62.1
	O.Workers helped for housing problems	88.4	88.5
	P.Workers job protection	72.8	81.3

Source: Zupanov et al., (1977).

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