

# MICRO AND MACROECONOMIC EFFECTS OF THE CONTEMPORARY PUBLIC FINANCE OF YUGOSLAVIA

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## I. THEORETICAL BASES FOR THE FUNCTIONS OF PUBLIC FINANCE IN YUGOSLAVIA

Our discussion concerning the theoretical bases for the functions of public finance in Yugoslavia will be limited to the period from World War II up to nowadays. During that period very important socio-political processes and changes occurred in our country; namely, in those years the development of socialistic socio-economic relations was started and it brought several new political, economic, social and other qualities. These changes had an impact on public finance of Yugoslavia and imperatively required that public finance change and adapt to the newly created situation. Socio-economic changes in Yugoslavia after World War II required that public finance become an important active factor in almost all the domains of the socio-economic life. However, when we presently consider public finance in Yugoslavia through the whole mentioned period, we cannot always find a unique theoretical basis for their functioning, structure, scope and place in the economic and social policy. Namely, in spite of the fact that the socialistic socio-economic development is unique from the aspect of its basic goals and the creation of such relations where the material, social, educational, cultural and political elevation of man would be a primary value and where there would not exist economical exploitation, it has also its developmental stages with distinct characteristics. So, institutional relations in economy and society as a whole may be very different in the development of the socialistic socio-economic relations. We may distinguish three models of public finance in the Yugoslav literature, dealing with theoretical processes and the definition of the principles and institutions of public finance and their functioning :

—Public finance of state ownership in economy and governmental management of economy;

—Public finance in the period of abandonment of general etatism and the creation of the first self-managing forms, and

—Public finance in the period of fully developed self-management in enterprises and self-management in social or public services.

### 1. Public finance of state ownership in economy [and [governmental management of economy

This model of public finance existed in Yugoslavia in its most distinctive form during the period from 1947 to 1951. Its functioning coincided in time with the realization of the First five-year plan of the national economy development.

When the planned development of the national economy was started in Yugoslavia in 1947, the following two theories dominated in the socialistic economic literature. The theory on the state ownership of the means of production and the Theory on the governmental management of the national economy.

According to the Theory on the state ownership of the means of production, such an ownership in industry, banking, transport, wholesale trade, as well as in large agricultural properties was the basic condition for the socialistic development of the national economy.

According to the Theory on the governmental management of the national economy, the state and its institutions were these subjects making the main decisions in economy, concerning the scope of production, the assortment, the amount of wages and salaries, the prices and their relative relations, the distribution of accumulation to branches and fields of economy, etc. On the basis of this theory a number of institutions were created, with the task to realize the governmental management in the development of the national economy. The most important among these institutions was the centralized plan of the national economy development. This institution had a universal character, since it included the whole national production and consumption, the distribution of the national accumulation into investments in branches, fields and areas of production, etc. The plan was first created for the whole state level, and then elements for plan on the levels of the federal units, districts and regions were derived from it.

These two theories represented a powerful theoretical source for the creation of the model of public finance in the conditions of state ownership of means of production and governmental management of the dominating streams of the national economy, distribution, exchange and consumption. The model of public finance in such conditions had the following characteristics : a big concentration of financial resources on the level of the central government, an important participation in the distribution and redistribution of the national income and the direct financing of investments.

The financial concentration in such a model of public finance was realized through an institution known as the General state budget. In this financial insti-

tution were all the revenues and expenses of public finance. The General state budget consisted of the federal budget, the budgets of the republics and the provinces and the budgets of the regions. So the General state budget represented a strong framework of public finance where very large financial means were concentrated. The federal budget or the budget of the central government represented the biggest part of the General state budget. In the period from 1947 to 1951 between 55 % and 69 % of the General state budget went to the federal budget.<sup>1</sup>

In such a model of public finance in Yugoslavia a strong financial concentration could be achieved, since its participation in the distribution and redistribution of the national income was very large. Namely, the expenses of public finance in Yugoslavia from 1947 to 1951 amounted between 64 % and 75 % of the national income.<sup>2</sup>

In this model of public finance its economic function was very prominent. In fact, it emerged in two ways. Namely, each state-owned enterprise had its own annual financial plan corresponding to its plan of production. These enterprises got the necessary working capital from the budget of the corresponding competent governmental authorities. Besides that, public finance in this model had to provide investments for new enterprises. In the scope of the five-year economic plan it was decided where it should be invested and who will be competent. Since governmental authorities made their investment plans on the basis of the central plan, i.e. the five year economic plan of Yugoslavia, their budgets were competent for their financing. In the period from 1947 to 1951, 40 % to 50 % of the total budgetary expenses of Yugoslavia went to the investments financed from the budgets of all governmental authorities.<sup>3</sup>

In the mentioned model of public finance of Yugoslavia the system of public revenues was not unique, but it was divided into two parts : the fiscal system of the state or the socialistic sector and the fiscal system of the private or the individual sector.

In that period the system of public revenues of the socialistic sector of the national economy was not rich in fiscal forms, since it had only four members. The excise tax of the Soviet type, supplying the largest budgetary revenues, dominated in its structure. In fact, it was a form of direct fiscality, whose taxpayers all were state-owned enterprises. This fiscality had a high rate and served as a basic financial instrument for the creation of the state accumulation.

The system of public revenues of the private sector had also only four fiscalities. The most important among them was the income tax in agriculture and in handicrafts, with a rather high progressive rate.

In principle, in such a model of public finance its micro and macroeffects

1. Statisticki godisnjak Jugoslavije za 1954 godinu, str. 109 i 259.

2. Ibidem, str. 109, 259 i 269.

3. Ibidem, str. 269.

were strong. Since it functioned on the principle according to which public finance should have a dominant position in the distribution of the national income, as well as in the financing of new investments, right or wrong decisions made in the field of public finance had an impact on the whole national economy.

Such a model of public finance has also important microeconomic effects. Since in it public finance take a great deal of surplus of products to enterprises, it was of great importance to set the stimulative and the destimulative relations in the fiscal taking, or taxation.

So in Yugoslavia in the period from 1947 to 1951 public finance had strong macro and microeconomic effects. Their most important macroeconomic effects came from their function of new investments financiers, by the method of non-return investments, as well as from the function of supplying enterprises with working capital.

As for microeffects, the effects of public finance in Yugoslavia in the mentioned period was smaller in scope, because a number of economic parametres of vital importance for enterprises were set without an important influence of public finance. Namely, the central planning organs established the amount of wages and salaries, as well as the amount of planned gains, without an important influence from public finance; their influence was larger in the field of non-planned gains.

In spite of the fact during the mentioned period public finance had relatively small microeffects in the socialistic sector, they played an important role in the field of the private sector. Public finance had a strong impact on individual producers in agriculture and in handicraft through the taxation of their revenues.

## **2. Public finance in the period of the abandonment of general etatism and the formation of the first forms of self-management**

In our opinion, in public finance in Yugoslavia this period lasted for twenty years, i.e. from 1951 to 1971. From the aspect of public finance, it was eventful, but not homogenous. During this period in public finance of Yugoslavia many things happened, many some of them contradictory. So we cannot speak about a homogenous model of public finance based on unique theoretical principles, but about a model of a hybrid type reconciling and coordinating etatistic principles with those of self-management in the management of economy; at the end of the period etatistic principles were replaced in the economic and social development and the self-management principles were emphasized.

This period started with an intensive criticism of centralized state management in the Yugoslav economy. Namely, at the end of the period from 1947 to 1951, important criticisms on the administrative and centralized way of the national economy management appeared in the Yugoslav literature. It was a complex criticism, since it did not deal only with the analysis of the economic efficiency of the centralized and administrative management of economy, but it included also the

ideo-political and the sociological aspect of the mentioned system of economy. Denying the centralized and administrative method in the economy management, it emphasized the idea of the self-managing development of the national economy through the self-managing administration in enterprises. This idea, after being completed and developed into a system was named The Self-managing Development of Economy and Society. The starting theoretical premise in the formation of the economic development of the self-managing socialistic society lies in the freedom and the responsibility the producer has in making decisions of basic economic importance in his working organization and associated enterprises. The collectives should take into account the framework plan of the economic and social development of the national economy, as well as of the conditions at the market. This theoretical component of the self-managing development of the socialistic society is contradictory to the Theory of the state property of means of production in economy, as well as to the Theory on the state management of the economy. According to the Theory on the self-managing development of the socialistic society a strict centralized planning of the national economy development should be abandoned and the socialistic production of goods, in which laws of the market would be considered and used, should be introduced. According to this theory the non-cash investments financing from the budget should be abandoned and the creditory relations in decision making in investments should be introduced, as a method enabling a greater social economy of investments. According to this the category of income in the framework of enterprises should be introduced and the principle of remuneration according to work should be realized through it. In order to be in the position to realize the principle of remuneration according to work, as well as the other above mentioned functions, the working collectives must have the right to make several economic decisions on the self-managing basis.

According to the Theory of self-managing socialistic economic development the basic socio-economic unit is the socialistic enterprise, in which the self-managing socialistic economic relations are developed, and which should be merged horizontally and vertically by way of the self-managing association.

The transition from the system of the centralized administrative management in the economy of Yugoslavia to the system of the workers' self-management in enterprises should not be considered as an event which occurred in a short period of time. On the contrary, this transition should be considered as a very complex and a relatively long-lasting process, during which several changes occurred in enterprises and in the whole national economy, and therefore in the field of public finance.

During the mentioned period there were many changes in the field of public finance and it would be a very large task, surpassing the frame of the goals of this study, to quote and explain all of them. Therefore I will discuss only those events, changes and occurrences in public finance of that period which I consider to be of special importance.

The abandonment of the model of the national economy with state ownership

in economy and state management of economy has brought important changes in the quantitative importance of public finance. If it is measured according to the participation of expenses of public finance in the national income, we may say that there occurred an important lessening of this participation in the period from 1952 to 1971 if compared with the period 1947 to 1951. Namely, the participation of public finance in the national income in the period from 1952 to 1971 was between 35 % and 46 %.<sup>1</sup> As we can see, it was much smaller than the participation from the period of the centralized and administrative management of economy. But the scopes of this participation were rather great if we consider the situation by years. It means that throughout this whole period an optimal participation of public finance in the national income was required.

Parallely with the quantitative changes in the participation of public finance in the national income, there was another process, which meant an abandonment of the budgetary centralization. So the institution of the General state budget, which meant the centralization of the federal resources at the level of the federal government, was revoked; a number of public functions were transferred to the republics, the provinces and the regions. Funds were created as independent funds and as budgetary funds. In public finance of Yugoslavia in the period from 1947 to 1951 public funds were not functioning, since it was not permitted by the conception of the centralization of public resources. In this period the creation of funds represented an important characteristic of public finance of Yugoslavia. First the Fund of social insurance was created. It was an independent fund, out of the budgetary system. In the period from 1947 to 1951 social insurance was an integral part of the budgetary system. This fund included the financing of health care, old-age pension, disability pension, and children's allowance. The Fund had its own revenues and represented an important financial institution, and its participation in the national income was between 10 % and 12 % in that period. But this Fund was also very important from the aspect of self-management. It was the first important financial institution in which the insured persons made decisions concerning their financing through their delegates in the assemblies of social insurance. Besides the Fund of social insurance several other funds were created, such as : the Fund for the advancement of agriculture, the Fund for the advancement of industry, the Fund for the advancement of forestry, the Fund for roads, the Fund for the regulation and the exploitation of waters, the Fund for apartment building, etc. The representatives of the government together with the representatives of the economic chambers, business associations and syndicates made decisions on the use of the resources from these funds. However, these funds in most cases had not their own independent revenues, but they got financial means from the budgets, so they were financial institutions with partly self-management.

In the second part of this period there appeared Funds for schooling. These

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1. Materijalni i društveni razvoj SERJ, Beograd, 1973, str. 54.

funds were created on the levels of the republics, provinces and regions, i.e. communities. Through these funds institutions for upbringing and education from elementary schools to faculties were financed. The beginnings of self-management in the framework of the financial mechanism for education began to show through the distribution of financial resources between personal and material consumption in the framework of educational institutions. However, the possibility of self-management was limited in time, since the funds for education did not have their own sources of income. Namely, these funds got the largest part of financial means from the budget of the corresponding socio-political community.

During this period there occurred the abandonment of the method of non-return financing of investments, which was characteristic for the period from 1947 to 1951, and there was a transition to the creditary financing of investments. However, through a number of years in this period public finance in Yugoslavia remained in a narrow connection with the investment mechanism. It happened in the following way: After the revoke of the direct non-return financing from the budget, a co-called social investment funds were created. Each socio-political community had its own socio-investment fund. These funds were formally out of the budget. However, their resources were formed through corresponding forms of fiscality. The financial resources of these funds were given in principle on a creditary basis through corresponding banks, on the basis of the plan of economic development. However, the sociopolitical community to which the fund belonged had a definite influence in the choice of the subject to which the investment credit would be given. These funds were revoked in the course on 1963, 1964 and 1965.

During this period there were important interventionary functions of the budgetary system through the budgetary transfers to the benefit of agricultural enterprises of the socialistic sector, railway and air transport and some branches of export in industry. The budgetary transfers to the benefit of some economic subjects existed in the budgets of all sociopolitical communities. However, in accordance with its financial importance the federal budget realized the largest number of transfers to the benefit of economic subjects. Its peak was achieved in 1964, when the transfers with economic goals represented about 25 % of total expenses in the federal budget. 1965 was the crucial year in the use of transfer with economic goals in the budgetary system of Yugoslavia. During that year big changes occurred in the Yugoslav economic policy. After that there was an important lessening of economic transfers from the budgets on all levels of socio-political communities; from the aspect of their financial amount and in the number of transfer users. Transfers from the budgets were revoked for a number of economic subjects.

The system of public revenues in Yugoslavia was very eventful during this period. Especially relatively frequent changes occurred in the taxation system, intended to the socialistic sector. The largest number of changes in fiscalities, intended to the taxation of the socialistic sector, came from the search of such forms of fiscality which would be able to perform important tasks of the economic policy,

besides their fiscal function. So we shall discuss only some fiscal forms, which we consider as important instrument for the realization of macro and microeconomic effects. In this period the Soviet model of turnover tax was abandoned. It was replaced by the turnover tax of the market economy. So the fiscal structure got an important fiscality with which it could influence the relations of supply and demand of a number of goods. Another important fiscality, created in this period, was «the interest on fixed assets». In fact it was a tax on capital. All enterprises of the socialistic sector were obligatory to pay this fiscality. Its basis was the non-amortized value of fixed assets in the enterprise. This fiscality had several economic effects. But we will discuss only two of its economic effects. This fiscality was one of the factors providing the social rentability of the enterprise. Namely, since technically it was included into the price of the product from the enterprise of the socialistic sector, in order to realize their income they had to get such a price on the market which will cover this fiscality. This fiscality was introduced immediately after the abandonment of the administrative determination of the scope and assortment of production in enterprises of the socialistic sector.

Another economic function of this fiscality consisted in providing a part of the centralized accumulation. This fiscality was the revenue of socio-investment funds. Later it got an addition to its function in providing a part of the centralized accumulation in the fiscality called «a contribution to the income of the economic organization».

In the field of the taxation system of the socialistic sector a number of fiscalities with different effects of economic and social character were functioning in this period. But, in our opinion they were less important.

In the field of fiscalities for individual sector the greatest change was in the transition to the taxation of agriculture according to the normative method. It brought very positive results, since it stimulated the producers to realize a greater production.

At the end of this period the fiscalities having the function to centralize a part of the national accumulation were abandoned.

By the end of this period the direct fiscalities taxing enterprises of the socialistic sector were revoked, and new direct fiscalities from the personal income of the inhabitants were introduced, but this experiment did not bring satisfactory results.

In public finance of Yugoslavia in this relatively long period, as it was already stressed, general etatism was abandoned and first self-managing forms were created. Both factors contributed to the fact that public finance existed as a hybrid from the theoretical point of view. Functioning as a hybrid model, public finance had a number of macro and microeffects of various kinds during the whole mentioned period. Macro and microeffects of economic nature were dominating.

Public finance of Yugoslavia realized its macroeconomic effects throughout the whole mentioned period through their financial institutions and their structures.



In the field of enlarged reproduction the most important macroeconomic effect was realized through social investment funds, by which a large part of the total national accumulation was gathered. Through the budgetary system, in the whole, the allocation of an important part of the national resources were influenced. The most prominent forms of the influence of the budgetary system on the allocation of economic resources were realized through the budgetary transfers and the budgetary purchases.

The fiscal system in whole, as well as in its structural parts, performed both important macro and microeconomic effects. In a part of the mentioned period microeffects of some fiscalities in the field of distribution in enterprises of the socialistic sector were of special importance.

Public finance in this period had also important economic effects in the individual (private) sector. The introduction of taxation in agriculture according to the normative basis, i.e. to average income, had a stimulative effect on agricultural producers, in the increasing of production.

However, self-managing forms developed slowly in public finance during that period. They were more intensive in the field of social insurance than in the field of education.

The finances of social insurance influenced in average one-tenth to one-twelfth of the allocation of the national income.

The finances of funds for education, however, had a much smaller influence on the allocation of economic resources.

### **3. Public finance in the period of developed workers' self-management in enterprises and self-management in social and public services**

Yugoslavia today, i.e. the contemporary Yugoslav society, has as its general goal the building of the socialistic self-managing society. According to hitherto theoretical discussions in the Yugoslav literature concerning the development of the self-managing socialistic society, its basic characteristics could be synthesized and expressed in the following way : The self-managing socialistic society is based on the power of the working class and all working people. The relations between people are the relations of free and equal-in-rights producers and creators of material and spiritual values. Their work serves solely to the accomplishment of their personal and common goals and needs. The basis of the socio-economic position of the working man in the realization of his personal and social interests lies in the social ownership of the means of production. The social ownership of the means of production is a very important condition for the self-management of working people in production and the distribution of the products of their work. The social ownership of the means of production is a very important condition for the development of society on the self-managing bases as a whole. On such a basis the conditions for a quick development of forces of production, for the increase

of the productivity of labour, for a wider development of science and the use of its results, for providing higher levels of education for a large number of inhabitants, for the raising of the cultural level of large masses of people.

According to the contemporary Yugoslav literature, the social ownership of the means of production and the self-managing socio-economic relations in enterprises, as well as in all other forms of social life, enable a free initiative of people in the development of the material production of goods, in science, literature and all kinds of art, to the benefit of individuals, of smaller and larger social communities. On such a basis the work of individuals and enterprises appears as a right element for the participation in income. The social ownership, therefore, appears as a basis for the association of the work of individuals in productive and non-productive activities in the socialistic sector. The basic organizational form of such an association of the work of people and means of production is the Basic Organization of Associated Labour. The workers in the basic organizations of associated labour make decisions, concerning all vital problems of production and distribution, on a self-managing basis. Basic organizations of associated labour mutually associate horizontally and vertically. So a self-managing mechanism is built and it includes branches and fields of production, as well as geographic regions and the country as a whole.

According to the contemporary Yugoslav literature, conditions for general democratic relations in the whole society are promoted.

The above mentioned bases, as general bases for the development of the self-managing socialistic society, are a source for the solidarity and reciprocity in society. Namely, solidarity and reciprocity of everyone towards all and of all to everyone is an integral part of the socialistic self-managing society.

However, although the social ownership of the means of production and the association of workers operating with these means represent the basis of the socialistic self-managing model of society, the contemporary Yugoslav literature does not exclude the existence of the production of goods and services by individual work with individually owned means of production. Namely, those performing their activity by individual work with individually-owned means of production have in principle the same rights and the same duties as those working in the socialistic enterprises. They can also associate with enterprises of the socialistic sector.

In the contemporary Yugoslav literature it is emphasized that the basic cell in the development of the socialistic self-managing society is the basic organization of associated labour. The workers in the basic organization of associated labour set their mutual relations on the self-managing basis. They fix their plans of production and individual tasks in production; they make decisions concerning the distribution of income on personal incomes and accumulation; they make decisions concerning investment programs and several other business and mutual problems. The working organizations may associate into various forms of complex organizations of associated labour depending on their business connection. So working

organizations in the field of production, mutually connected technologically and economically, associate into a complex organization of associated labour. The working organizations from the field of production may associate into a complex organization of associated labour with working organizations from the field of traffic.

However, the new thing from the aspect of public finance in Yugoslavia today is the fact that the working organizations became institutional subjects of the Yugoslav parliamentary system and that they take part in all essential decisions made in the field of public finance at all levels of socio-political communities.

In 1971 important constitutional changes occurred in Yugoslavia. Several amendments to the Constitution of Yugoslavia were made and some of them referred directly to public finance. In the new Constitution of Yugoslavia, brought in 1974, i.e. in the latest Constitution, these amendments were accepted.

Although several paragraphs of the Yugoslav Constitution of 1974 refer to public finance, we will discuss only two of them, since in them we see the introduction of public finance into the self-management system of Yugoslavia, in the way we interpreted it above.

According to the Constitution of Yugoslavia of 1974, all the representative organs, i.e. the assemblies of the socio-political communities, from the commune to the federation, are complex and consist of several councils. One of them is the «Council of Associated Labour» or the council with representatives of the working collectives. The councils of associated labour are equal in rights with all councils in bringing the laws. Therefore, every law or other general act, referring to public finance of Yugoslavia, must have the agreement of the council of associated labour. So, when the decision on the budget of socio-political communities is made, or when changes in the fiscal system are introduced, the Constitution required that the council of associated labour agrees to it. In that way the whole budgetary system and the fiscal system are under law prerogatives of the representatives of the working collectives and their associations.

In our opinion, another important institutional occurrence in public finance in this period is the creation of «self-managing communities of interest». According to the Constitution of Yugoslavia of 1974 «the self-managing communities of interest» are created by working people directly or through self-managing organizations, in order that their individual and common interests be accomplished. . . Working people pay fees from their personal incomes and incomes of the basic organizations of associated labour to these communities.» The largest number of the self-managing communities of interest was created in education, science, culture, health care and social protection, therefore in very important social activities.

According to the contemporary Yugoslav literature, the conception of the self-managing socialistic society is supplemented by these institutional changes in the Yugoslav society as a whole, and especially in the field of public finance. In practice all the aspects of the value of concrete solutions should be evaluated and it should present the material for further study to the theory.

The contemporary public finance of Yugoslavia is a complex system. It consists of two sub-systems: the sub-system of the finances of socio-political communities and the sub-system of the finances of the self-managing communities of interest. Both sub-systems have complex structures, with potential power to provoke macro and microeffects. In a separate part of this work these effects and their scope in the national economy of Yugoslavia will be presented.

## II. THE INSTITUTIONS AND THE STRUCTURES OF CONTEMPORARY PUBLIC FINANCE IN YUGOSLAVIA

The institutions of public finance in Yugoslavia were formed under the influence of a number of factors. However, in our opinion, two following factors dominated in the formation of the institutions of public finance in Yugoslavia:

1. The socio-political system of Yugoslavia, and
2. The development of the self-managing relations in Yugoslavia in the field of public or social functions.

1.1. Yugoslavia is a country with a federal sociopolitical system, consisting of six republics and two provinces. Local socio-political communities, called communes, function in the scope of republics and provinces. There exist 510 communes in Yugoslavia today. The highest level of the socio-political community in Yugoslavia is the Federation.

The budget represents the basic financial institution for the financing of the Federation, six republics, two provinces and 510 communes. It means that today in Yugoslavia there is one federal budget, six budgets of the republics, and two budgets of the provinces and 510 budgets of the communes. At each level of the socio-political community the budget is brought independently annually in the scopes of their own representative body. However, all socio-political communities, i.e. the Federation, six republics, two provinces and 510 communes should follow, when determining the scope of their budgets, the recommendations brought by intermediate-range plans of the economic and social development as well as annual recommendations of the economic and the social policy.

Although the budgets of each socio-political community is completely independent today, from the aspect of the process of its formation and legalization in the representative organ, some budgets are mutually connected. So the budget of the Federation is connected with the budgets of the republics and the provinces, which are considered today as socio-political communities not in the position to finance public needs on an average Yugoslav level. In Yugoslavia today there are three republics and a province which are not able to finance public functions on an average Yugoslav level, because of the lack of sufficient economic and financial capacities. For that reason the institution of the overflowing of financial resources to the benefit of these republics and this province has been introduced. However, because there exist still economic variations between communes, due

mainly to the historical development, the institution of the overflowing of financial resources exist also between the budgets of the republics and provinces and the budgets of those communes which are not able to finance public functions from their competence on the average of the republic or the province.

Besides the budgets, as basic financial institutions for financing public needs from the constitutional competence of the socio-political communities, there are also funds in Yugoslavia today. The institution of funds, strictly purposeful financial institutions in the scope of socio-political communities, exists at all levels in Yugoslavia today. Globally, these funds may be divided into two groups. One of them consists of funds aimed for the financing of a set purpose, representing in fact a regular function of the socio-political community, but whose financing lasts in most cases for a long time. The character of the spending of these funds is almost identical to the spending of a budget. However, besides funds having such a character of consumption, in Yugoslavia today there are funds in the scope of public finance with the aim to contribute to a faster economic development. The most important fund with such a purpose is «The Fund of the Federation for Supplying of Credits for a Faster Economic Development of Economically Underdeveloped Republics and Provinces». This Fund exists from 1965 and its function is to give credits for economic development, by way of benefited interest rates and benefited instalment terms of credits to those republics and provinces which are considered as underdeveloped at their present level of development. Up to now three republics and one province used the resources of this Fund, as an additional accumulation for their economic and social development. According to the hitherto use of the resources provided by this Fund, we may see that the biggest part of them was used for the development of the economic, educational and medical infrastructure, as well as for the development of industry.

Almost all the republics and provinces have presently funds with such a purpose, as their financial institutions. The aim of these funds is identical to the aim of the Fund of the Federation, and the only difference is in the scope of the resources and in the users. These funds have smaller financial resources when compared to the Fund of the Federation. Their users are those communes which are considered as underdeveloped economically in the scope of the republic or the province.

The budgets and the funds of the socio-political communities today in Yugoslavia are supplied mostly by way of taxes and fees.

In the structure of the revenues of the budgets of socio-political communities, as well as in the structure of the largest number of their funds, the financial resources from taxes are dominating. In Yugoslavia today there are direct and indirect taxes or fiscalities.

Today in Yugoslavia the Federation, the republics and the provinces have the right to introduce taxes, i.e. the right to the taxation sovereignty. Until the adaptation of some amendments to the Constitution of Yugoslavia in 1971,

the fiscal sovereignty was mainly in the competence of the Federation. After the adoption of these amendments to the Constitution of Yugoslavia in 1971, the fiscal sovereignty was largely transferred to the republics and the provinces.

The Federation has now the fiscal sovereignty over duties and over the federal turnover tax, or as it is called presently—the basic turnover tax. Therefore, the Federation has today the fiscal sovereignty over such taxation forms whose effects are spread on the whole territory of Yugoslavia.

The fiscal sovereignty of the republics and the provinces includes all the direct taxes and a part of indirect taxes, whose domain is narrower.

The communes realize their budgetary revenues on the basis of the financial legislation of the republics and the provinces.

In Yugoslavia today there exist a number of forms of direct taxes. The largest financial results are obtained through the tax from the personal income, tax from the personal income obtained in agricultural activity and the tax from the income of the enterprise. The financial results of the other forms of direct taxes are less important. In direct taxation both the progressive and the proportional method of taxation are employed.

In the system of taxation the turnover tax on goods and services and on duties exist as indirect taxes. The existing form of the turnover tax in Yugoslavia today is organized on the principle of a single-phase turnover tax in retail trade. The turnover tax exists in three forms: as the federal turnover tax, as the turnover tax of the republics and the provinces, and as the regional turnover tax. However, the federal turnover tax has the greatest fiscal and economic importance.

If we compare the financial result of all the direct forms of taxation with the financial result of all indirect forms of taxes providing resources for the budgets of the socio-political communities in Yugoslavia and their funds, we can see that in direct taxes are dominating. However, when we compare all the direct forms of taxes providing the resources for the budgets of the socio-political communities and all direct fiscalities of the self-managing communities of interest, having today a common name of fees, with all indirect taxes, we can see that direct taxes and fiscalities are somewhat larger than 50 % of the total public revenues in Yugoslavia.

Fees have a much smaller contribution in the structure of the budgetary revenues of all socio-political communities than the revenues realized through taxes.

2.1. Besides the traditional institutions in the scope of public finance which are correlated with the existence and the functioning of the socio-political communities at all levels, in Yugoslavia today exist and function institutions belonging also to public finance, but which are the result of the development of the self-managing relations in the domain of public or social functions. Institutions of such a character are called in the Constitution of Yugoslavia of 1974: The Self-managing Communities of Interest. We have said above that interpretation of the self-managing communities of interest in the Constitution of Yugoslavia. Up to now these communities were created at the level of communes, provinces and republics in the

field of education, science, culture, health care, social protection and other social activities.

The financial plan is the basic financial institution for financing of the functions of the self-managing communities of interest. This plan is made annually and it corresponds to a fiscal year. It is brought by the assemblies of the self-managing communities of interest having two chambers and consist of the council of the representatives of givers of services and the council of representatives of users. Both councils are equal in rights in bringing the financial plan.

According to the Constitution of Yugoslavia of 1974 the self-managing communities of interest have the fiscal sovereignty. They realize the largest part of their revenues through fees. The fees are in fact parafiscalities. In Yugoslavia today there exist various fees depending on the character of the function of the self-managing community of interest. The self-managing communities of interest have to follow the recommendations concerning the level of public or social consumption, determined by the plan on economic and social development, as well as annual resolutions on economic and social development, when they make decisions on the level of the fee rates.

According to the present movements in the financial flows of public finance of Yugoslavia, the finances of the self-managing communities of interest are increasing.

In the present system of public finance of Yugoslavia there exist almost all the financial institutions and institutes of public finance, treated by the contemporary financial theory. It means that the present system of public finance of Yugoslavia has the potential capability to realize complex tasks required by the contemporary financial theory and practice.

### III. THE ANALYSIS OF MACRO AND MICROEFFECTS OF THE CONTEMPORARY PUBLIC FINANCE OF YUGOSLAVIA

The contemporary public finance of Yugoslavia, as it was stressed in the above text, are a complex system consisting also of sub-systems : the sub-system of public finance of the socio-political communities and the sub-system of public finance of the self-managing communities of interest. Such a complexity of the contemporary public finance of Yugoslavia requires that their macro and micro-effects be considered first as a whole, and then by sub-systems.

#### 1. Global effects of public finance

We will consider first the global effects of public finance of Yugoslavia through the participation of the total public revenues in the national income of Yugoslavia during the last few years. In order to show the participation of the total public revenues in the national income of Yugoslavia, we will present the following table :

The participation of public revenues in the national income of Yugoslavia for the period from 1970 to 1975<sup>1</sup>

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
The participation of public revenues in billions of dinars in current prices	64,1	75,9	94,6	111,5	153,0	202,0
in % of the national income	44,9	40,8	42,3	40,4	42,1	44,9

The total public revenues in the mentioned period showed a very big nominal increase. Inflationary movements had an important influence on that big nominal increase, and their intensity was particularly prominent in 1974 and 1975. However, independently of the influence of the inflationary movements on the absolute increase of the total public revenues during the mentioned years the above table shows also their important relative relation to the national income of Yugoslavia presented through current prices. The relative relation of total public revenues in relation to the national income of Yugoslavia is not equal in the presented years, since there exist differences among years. However, in spite of those differences, more than 2/5 of the national income in all years consisted of the total public revenues. It means that the total public revenues made by such a redistribution of the national income conditions for the direction and allocation of a large part of the total national demand in Yugoslavia.

Through the structure of public expenses we will present the movement of the basic allocation of demand through public finance of Yugoslavia in the period from 1970 to 1974.

1. «Privredni bilansi Jugoslavije 1973.», Beograd, 1975., str. 34.  
 «Privredni bilansi Jugoslavije 1974.», Beograd, 1976, str. 34.  
 Statisticki godisnjak Jugoslavije za 1976. g., Beograd, 1976, str. 137 i 273.



The structure of net public expenses of Yugoslavia  
presented in % for the period 1970 to 1974<sup>1</sup>

	1970	1971	1972	1973	1974
Total	100,0	100,0	100,0	100,0	100,0
Non-economic activities	69,9	68,6	67,1	67,2	68,1
Consisting :					
Personal incomes - net	29,2	29,8	29,0	28,4	28,1
Material expenses	26,5	26,0	25,6	26,4	27,1
Non-economic investments	14,1	12,8	12,5	12,4	12,9
Transfers to the benefit of inhabitants *	27,6	28,4	29,8	29,8	28,9
Transfers abroad-net	2,5	3,0	3,1	3,0	3,0

Although this structure of the total net public expenses is not rich in relief, it shows the basic directions of the total public demand. Namely, in the total public demand in Yugoslavia, making over 40 % of the national income, the personal demand is dominating. In the above table the personal demand, created through public expenses, is realized in two ways : through personal expenses of persons working in public services, and through the transfer to the benefit of inhabitants. Personal demand, created through personal incomes of those working in all aspects of public activities, participated in the structure of the total net expenses of Yugoslavia for the period from 1970 to 1974 with 28,1 % to 29,8 %. Personal demand, realized through the transfer of public expenses, participated in the structure of the total net public expenses in the mentioned period with 27,6 to 29,8 %. It means that the total personal demand, created through public finance, participated in the structure of the total public expenses of Yugoslavia in the mentioned period with 56,8 % to 58,8 %.

Another important structure in the total net public expenses of Yugoslavia consists of material expenses in the mentioned period. In fact these are public purchases on the market. They participated between 25,6 % and 27,1 % of the total net public expenses.

The third important structure consists of non-economic investments. The non-economic investments include a very large number of objects, i.e. all kinds of schools, medical and social objects, apartments, objects for sports and other objects for recreation, etc. Through them the investments public demand is created, but in the form of non-economic investments. This form of public demand in the mentioned period participated between 12,4 % and 14,1 % in the total structure of the net public expenses of Yugoslavia.

1. «Privredni bilansi Jugoslavije 1973», Beograd, 1975, str. 33.

«Privredni bilansi Jugoslavije 1974», Beograd, 1976, str. 30.

\* Dissnibilita p nsions. pensions, childrens' allowances, etc.

The above illustrations and their analysis bring us to the following conclusion : The contemporary public finance of Yugoslavia in the whole contain a great potential capacity for macroeconomic effects, since they redistribute more than 40 % of the rational income. The basic structure of the total public expenses shows at the same time that public finance of Yugoslavia have a big influence on the creation of personal demand in the scope of the national economy. They have a smaller influence on the demand of investment goods. However, this demand is undoubtedly important for the economic, educational and cultural policy.

## 2. The effects of public finance of the socio-political communities

The socio-political communities are financing their functions from budgets or funds. In the structure of the budgetary revenues taxes are dominating. Fees and other nonfiscal revenues are of smaller importance. According to the source of resources, three groups of taxes are dominating : the turnover tax, the tax from personal income and the tax on the income of the enterprise.

The following table will show us how the revenues of the budgets of the socio-political communities were distributed according to levels in the period from 1970 to 1974.

The revenues of the budgets of the socio-political communities in billions of current dinars <sup>1</sup>

	1970	1971	1972	1973	1974
Budgets total	28,5	37,3	50,1	59,3	82,3
Federal budget	15,2	18,5	25,5	33,0	48,6
Budgets of the republics	5,1	7,9	10,4	10,9	15,1
Budgets of the provinces	0,7	1,4	3,3	2,5	3,1
City budgets	0,7	1,0	1,0	1,3	1,5
Communal budgets	6,8	8,5	10,0	11,6	14,0

Public finance of the socio-political communities, through their budgets, represent an important factor in the allocation of the national demand, since this demand amounts in average between 18 % and 20 % of the national income. In the structure of this demand the budget of the Federation is dominating, being the largest allocator of it. According to their importance after the budget of the Federation come the budgets of the republics and provinces, and then the budgets of cities and communes.

But we think that the distribution of the budgetary resources is of a greater interest for our analysis. We will show it in the following table :

1. Statisticki godisnjak Jugoslavije 1976, Beograd, 1976, str. 273.

The distribution of the budgetary resources according to purposes presented in % for the period from 1970 to 1974<sup>1</sup>

	1970	1971	1972	1973	1974
Total resources	100,0	100,0	100,0	100,0	100,0
Social and communal services	16,1	16,2	14,7	10,9	8,6
Administration and judiciary	18,0	18,0	18,6	16,9	17,1
National defence	26,5	23,6	27,2	24,0	25,9
Local communities and social organizations	1,7	1,7	1,9	1,7	1,6
Non-economic investments	5,3	3,9	4,8	4,5	4,1
Economic investments and interventions	7,0	13,5	20,2	17,6	17,8
Obligations from previous years	1,9	1,6	1,6	1,9	2,8
General additional resources	—	—	—	10,1	9,6
Purposeful additional resources	16,4	16,5	7,6	10,3	10,8
Reserves and surpluses	6,6	4,0	2,6	2,1	1,7

This table gives much more information when compared with the previous tables. However, we will discuss only some directions of the allocation of the budgetary resources. The non-economic investments, economic investments and interventions, as well as purposeful additional resources represent the distribution of the budgetary resources where the allocation is realized from the aspect of the needs of the economic policy. Although the relative relations have changed in years, these three allocations represent together an important percentual participation in all the mentioned years. It was the smallest in 1970, when it amounted 28,7 %. In all later years, however, it amounted over 30 % of the total budgetary resources.

The largest part of the allocation of the budgetary resources with such purposes had macroeconomic importance. In economic investments traffic and energetics were dominating. In economic interventions activities in the field of export trade and agriculture were dominating. The budgetary expenses of the federal budget had in these actions both absolute and relative domination.

Parallely with the budgetary expenses the budgetary revenues had important economic effects in the mentioned years. Since the federal turnover tax and duties are in the competence of the Federation, it was able to provoke macro and micro-economic effects through the two mentioned fiscalities. Through the federal turnover tax the Federation is in the position to influence the relations of offer and demand of a great number of products through the level of the tax rates. The similar macro and microeffects are performed through the duty rates.

1. «Privredni bilansi Jugoslavije 1973», Beograd, 1975, str. 37.

«Privredni bilansi Jugoslavije 1974», Beograd, 1976, str. 33.

The taxation of enterprises in Yugoslavia is presently in the competence of the finances of the republics and provinces. In all republics and provinces a number of stimulative elements have been introduced into the mechanism of this taxation, so that enterprises could be stimulated to larger investments.

The communal finances perform the taxation of agriculture and handicrafts on the basis of the financial legislation of the republics and provinces. All the financial laws of the republics and provinces contain a number of stimulative elements for new investments in the scope of the taxation of agricultural properties and craftsmen shops.

About the funds in the scope of the finance of the socio-political communities and their revenues and expenses and the effects they may have, we can say the following: The largest part of the revenues of the socio-political communities funds have the character of budgetary revenues. In Yugoslavia today there exist a number of funds with various purposes, as for example: The Fund for the Advancement of Agriculture, the Fund for the Advancement of forestry, the Fund for the Advancement of traffic, etc. As it may be seen from their titles, their allocational function is a set economic branch or field. In 1973 these funds contained 13,5 billion dinars, and in 1974 17,3 billion dinars.

In the economic policy of Yugoslavia today public finance of the socio-political communities are important factors at all levels and through them macro and microeconomic effects are realized. In that structure the budget of the Federation has a particular role.

### 3. The effects of public finance of the self-managing communities of interest

Public finance of the self-managing communities of interest are important financial institutions in Yugoslavia today. They dispose of large financial resources, with increasing tendency. After the adoption of some amendments to the Constitution of Yugoslavia of 1971, as well as after the establishment of the Constitution of Yugoslavia of 1974, the finances of the self-managing communities of interest developed in a more progressive way. The following table shows the financial power of the finances of the self-managing communities of interest:

The revenues of the finances of the self-managing communities of interest in billions of current dinars<sup>1</sup>

	1973	1974	1975
Revenues	43,3	69,7	100,2

1. Statisticki godisnjak Jugoslavije 1976 g., Beograd, 1976, str. 273.

Only in two years the revenues of the finances of the self-managing communities of interest increased more than twice. In 1975 they participated in the national income with over 22 %. Such a big participation of the finances of the self-managing communities of interest in the national income shows their great potential capacity and practical power in the allocation of the economic resources.

In the scope of public finance of Yugoslavia, the finances of the self-managing communities of interest are financing a number of social activities, as upbringing and education, science, culture, art, health care, social protection, etc. The allocation of economic resources in the finances of the self-managing communities of interest is greatly determined by the character of the financed activity. So in the self-managing communities of interest in social insurance and childrens' protection the allocation in personal consumption is dominating; while the allocation in investments is smaller. The situation is similar in the self-managing communities of interest in the field of upbringing and education.

Public finance of the self-managing communities of interest, as a very recent financial institution, disposing with large financial resources in the whole, realize both macro and microeffects through the allocation of resources, depending upon from the financed social activity. However, in our opinion, public finance of the self-managing communities of interest are not used sufficiently in the economic policy, although they possess a great potential capacity, for they dispose today with a big mass of financial resources.