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Zavodi “Crvena Zastava”: Yugoslav Self-Management Socialism and Challenges for the Automobile Industry

Abstract: This paper explores the experience of the *Zavodi “Crvena Zastava”* (Red Flag factory¹) of building the Yugoslav automobile industry between 1950s and 1980s. In 1954 *Zastava* began to manufacture automobiles based on the FIAT license and became the engine that drove the transformation of Yugoslavia from an agrarian into industrialized, urban and motorized country. However, its own development was hampered by the lack of stability in the Yugoslav socialist system under continual process of change and decentralization. This paper will examine crucial stages in *Zastava*'s development in the context of the Yugoslav evolving self-management system in order to discuss some theoretical issues and problems of practical applications. The aim is to show that while the concept of self-management was reasonable in the light of Yugoslavia's break from the Soviet bloc, the net effect of its practices proved problematic for the automobile industry.

Key words: *Zastava* automobile industry, FIAT, Yugoslavia, social ownership, self-management, technology transfer

“The automobile is a symbol, whether its owner is an individual or a nation, of power, independence and renown” *Le Monde*, 1968

Introduction

According to a historical anecdote told by Milovan Djilas, the key-figure in Tito's break with Stalin, the idea “factories to the workers” accidentally came

¹ In the 1962, *Crvena zastava*, transformed into *Zavodi “Crvena zastava”*, henceforth *Zastava*.

to his mind during his discussions with Edvard Kardelj and Boris Kidrič taking place in a car (Djilas 1969, 157–158). This was in 1949/50 when the car was a symbol of privilege enjoyed by the top party officials. *Zastava* workers followed Djilas' slogan when they embarked on automobile production and started to motorize Yugoslavs.

When the Yugoslav leadership inaugurated the innovative and pragmatic self-management path to socialism by promoting closer ties with the West, *Zastava* was one of the first factories to adopt this new model of development by signing in 1954 the contract for manufacturing of the FIAT license vehicles. By the mid-1950s Yugoslavia was collaborating with the Western Bloc, normalized its relationship with the Eastern Bloc and played a leading role in the Non-Aligned movement. This unique intermediate position had diverse manifestations especially in international economic cooperation. Between mid-1950s and 1980, Yugoslavia was one of the most important producers and exporters of manufactured goods with one of the highest GNP rate.² Automobile industry, dominated by *Zastava*, was the fastest growing and most important industrial sector in Yugoslav economy. The Yugoslav socialist system of workers' self-management has attracted a great deal of scholarly attention,³ nevertheless, the role *Zastava* played in Yugoslavia's overall economic development and the country's integration in the world economy is not widely known (Miljković 2013; Palairet 1992, 1993; Duda 2010; Vuic 2010).⁴

The paper examines some crucial stages in *Zastava*'s development in the period between 1950s and 1980s. The paper includes a brief outline of the historical development of Yugoslav self-management system as a point of reference to discuss some significant theoretical issues and problems of practical applications. The overall aim is to show the net effect of the Yugoslav development on *Zastava* automobile industry. Another aim of the paper is to provide some insights into first-hand experience of those who participated in *Zastava*'s development as available from memoirs and interviews (Zečević 2006; Janković 1993; Anđelković, Ostrečki 2002). The published memoirs of Riccardo Chivi-

² Despite the rapid industrial growth, products for world markets added low value.

³ They are too numerous to mention in a short format of the present article.

⁴ One of the most important scholarly contributions to the relatively small body of works on *Zastava* has been provided by Marko Miljković with his comprehensive study of the *Zastava*'s formative period between 1954 and 1962; Michel Palairet has investigated the role of the party and government policy makers on the *Zastava*'s process of management in the period from the late 1970s throughout 1980s; Igor Duda has explored the role of *Zastava* cars in motorization of Yugoslavs within the framework of the Yugoslav consumer society; The short, hapless life of the Yugo in the USA in the second half of the 1980s is the topic of Jason Vuic's popular book: *Yugo, the Rise and Fall of the Worst Car in the History*.

no (2015), one of the main protagonists in the FIAT's business deals with Yugoslavia during the Cold War shed additional light on the cooperation between FIAT and *Zastava*.⁵

Yugoslavia: From centralism to national decentralism

Self-management has its roots in the effective anti-Fascist resistance movement in the occupied Yugoslavia during WW2 led by the Communist party with its leader Tito. At the end of the war, the Communist regime was able to assert its total power in Yugoslavia by a popular support. The multinational Yugoslavia was built on the idea of "brotherhood and unity". In the aftermath of WW2, Yugoslavia followed the Soviet model of large-scale nationalization and centralized five-year planning of strategic industrial development. It soon became obvious that the centralized Soviet system became an obstacle for Yugoslavia's further socialist development. Tensions exploded into open conflict in 1948, Yugoslavia was expelled from the Cominform and the USSR stopped all trade and aid.⁶ To avoid total isolation Yugoslavia turned to the West.

Following the historic Tito-Stalin split in 1948, a truly anti-Soviet alternative road began to be paved. Edvard Kardelj, Tito's close collaborator, produced the theory to fit the practice of the so-called Titoism; i.e., Yugoslav way of building a self-managing socialism through the practice of direct democracy both in the economy and society (see also: Horvat 1984; Horvat, Marković and Supek 1975). Yugoslav socialist system evolved through four main institutional changes and phases in the development of self-management: 1) the Soviet-style central planning (1945–1952); 2) the period of the introduction of self-management (1950–1965); 3) the period of self-management market socialism (1965–1974); 4) the system of free-associated labor (1974–1988/1991) (Mencinger 1991, 73). These changes came through trial and error and were often enforced by crisis-driven and erratic shifts of Yugoslav policy.

Central planning in Yugoslavia was gradually dismantled in the process of economic decentralization between 1948 and 1952.⁷ In the first phase of the self-management workers' councils were set up in enterprises as organs of

⁵ Chivino's recently published memoirs are especially valuable because of the lack of literature on FIAT business deals in Eastern Europe, *Fiat in Poland, Yugoslavia and Russia as remembered by Riccardo Chivino*.

⁶ Tensions first rose during the "Trieste crisis," in which Yugoslavia was in a dispute with Italy and the West on the delineation of borders in Istria and Slovenia and for the town of Trieste.

⁷ In the period of the central planning until 1952, the annual rate of economic growth was only 1,8 per cent.

workers' management at the enterprise level. In the 1950s and 1960s Yugoslavia experienced remarkable economic growth and industrial development. In 1961, Yugoslavia reached the second highest GDP in the world (13 per cent) of and its GDP averaged an impressive 8.2 per cent until 1980 (Samary, Barzman and Baker, 1988). The impressive growth achieved in the 1950s would have been inconceivable without Yugoslav workers-peasants, however since they lacked professional skill and competence to run economy (Dyker 1990, 48), professionals and business administrators, who were daily engaged in management of the enterprises, were indispensable. From the mid-1950s onwards, enterprises transformed towards a management structure which gave managers and board members prominent position in making business decisions, with workers' councils particularly involved over questions of welfare, employment and pay, including the allocation of surplus profit between salaries and investment. The adoption of a more liberal course and the spread of consumerism produced ambiguous results.

Yugoslav workers were encouraged to a consumer life style and enjoyed access to a wider range of commodities than their counterparts in the Eastern Bloc. A shift towards consumerism was announced at the Second Party Plenum in 1959 by Mijalko Todorović, one of the chief economics planners who denounced Stalin's policy of economic accumulation at the expense of workers' living standard, and concluded that workers should be encouraged to produce more by the promise of consuming more. Yugoslav citizens acquired greater freedoms than other Eastern Europeans. The workers, in turn, demanded a larger share of profits they generated for personal income and joint consumption. In the rush to accumulate wealth and raise material standard of living, workers' councils focused on increasing the salaries of employees rather than investing in their enterprises (Estrin, Barzman and Baker 1988).

This was the first warning that the "social ownership" of the Yugoslav self-managed socialism had serious flaws: private interests were regarded as more important than those of the collective, i.e., since workers did not own shares in their enterprises they were not willing to invest back into their enterprises (Estern 1991, 189). This eventually led to a chronic lack of funding for new projects, innovation, and modernization of the existing capital (tools and machines) and infrastructure. Vital in sustaining Yugoslav fast industrial growth were early American aid⁸ and Western credits and grants. They also facilitated higher standard of living along with imports to meet the rising demand in consumer goods and covered the growing trade deficit.

⁸ According to the "US Policy Towards Yugoslavia" State Department Memorandum, July 15, 1965, LJB Library the economic and military aid between 1955 and 1965 amounted to \$2.2 billion.

By the mid-1962 industrial production fell to a half of 1960 level, imports spiraled; exports stagnated, causing high inflation since wages increased faster than productivity. Salaries increased disproportionately to industrial growth 23:3,4 per cent (Statistical year book 1985, 9). The recession produced an urgent debate on where to go from there: weather to strengthen or loosen the state control more. The minority around vice president Ranković was against decentralization. Party Liberals (mostly from Slovenia, Croatia, and the Belgrade area in Serbia) saw decentralization and economic liberalization as the only way out of Yugoslavia's economic stagnation.

At the Eighth Party Congress in December of 1964 they pushed through an extensive reform program intended to stabilize and restructure economy by decreasing the power of the federal government and increasing reliance on market forces in order to stimulate competitive industrial economy and better integration into international division of labor. Closer integration into the Western international market provided access to capital for development, but the market forces also led to unemployment, social and regional inequalities, and the rise of economic nationalism because of the escalating conflicts over distribution of power and resources among competing republics.

In the first half of the 1970s the conflicts between "liberals", "conservatives" and the "New Left" were terminated by a wave of repression. Tito seized upon the more radical Croatian nationalist movement as the impetus to start a sweeping purge of national and liberal elements of the Central Committee. Rather than attempting to re-introduce a measure of more central economic control, the new reforms of 1974–76 transferred even further powers to the republics, municipalities and enterprises, hence worsening one of the key problems. The Federal government became essentially irrelevant.

The "Law on associated labor" passed in 1976 lead to further disintegration of economic institutions by breaking-up large-scale enterprises into financially and commercially independent basic organizations of associated labor (BOAL). The intended aim was to replace competition by cooperation by strengthening self-management, however participatory democracy within the framework of one party rule of decentralized LCY was self-contradictory. Since the efficiency of the so-called agreed compacts fell short of economic criteria, Yugoslav economy became completely dysfunctional. Under the new decentralized system lacking leadership, planning, coordination and rationalization Yugoslav state was unable to effectively respond to the global changing political and economic conditions in the 1980s. The economic crisis in the 1980s and the cuts in redistribution of the national income between the rich and the poor regions further widened the rifts and lead to subsequent break up of the country by the early 1990s. Many Western observers have blamed ages old "Balkan hatreds" for the violent break-up of Yugoslavia. However, the origin of the Yugoslav

bloodshed, as Susan Woodworth (1995, 49) has convincingly shown, was the process of weakening of the federal government authority under the pressures of Western financial institutions and governments, which by the late 1980s led to in socio-economic and political collapse of the country and rising nationalisms (Woodworth 1995, 49). Michael Parenti (2017) points out:

“That U.S. leaders have consciously sought to dismember Yugoslavia is not a matter of speculation but of public record. In November 1990, the Bush administration pressured Congress into passing the 1991 *Foreign Operations privations Act*, which provided that any part of Yugoslavia failing to declare independence within six months would lose U.S. financial support”

On the role of the CIA in funding various NGOs, opposition parties and politicians to inflame hatred and divide republics to break away from Yugoslavia (Baer, 2015). Despite the failures and missed opportunities, socialist Yugoslavia was a relatively successful and functional state as long as it was allowed to exist as a non-aligned buffer to the Eastern Bloc. Even the severest critics of the socialist system have recognized that in the period in the period between 1950s and 1979, Yugoslavia not only survived but also prospered (Lydall 1980). Yugoslav achievements were largely destroyed in the wars of the 1990s. Thus, not surprisingly, current surveys and analyses show that a vast majority of the former Yugoslavs express themselves positively about self-management and consider that they were better off under Yugoslav socialism than they are today.⁹ As long as present-day societies are organized on the basis of increasing inequality in power and property, the concept of self-management remains a relevant topic.

Zastava's Transition and Phases of Development: From Cannons to Automobiles

Based in Kragujevac, *Zastava* is the oldest industrial enterprise in Serbia. Its long and successful industrial tradition as manufacturer of armaments goes back to the 1851 foundation of the cannon foundry. With the establishment of the Military-Engineering Institute in 1883, *Zastava* was able to rapidly diversify its production program of firearms and ammunition and to keep on improving the quality of its products based on new technologies. Within the complex, a section dedicated to motor vehicles was inaugurated in 1904. During WW1 *Zastava* was ruined in the fighting and then plundered by retreating German, Austrian, and Bulgarian forces (Vlajić i Zeković 1974, 9–11). The production resumed after WW1. In addition to repair and service of military and commercial vehicles, the assembly of the American *Chevrolet* trucks began in 1939 (Micić et al. 2013,

⁹ The so-called “Yugo-nostalgia” is wide-spread among ex-Yugoslavs (Duda 2010; Miljković 2013).

90), but came to a halt with the 1941 invasion, occupation and dismemberment of the Yugoslavia by the Axis Powers. Following a widespread destruction of Belgrade by the *Luftwaffe*, Serbia was placed under the German military administration. Serbia's resistance to occupation was brutally retaliated. In addition to military operations against guerrillas, the occupying forces conducted massive reprisals against the civilians in central Serbia.

With its 12,000 workers and 10,000 machines *Zastava* was the largest and one of the most advanced factories in Yugoslavia at the beginning of WW2. The *Zastava Institute* had since 1884 a specialized school for the skills necessary for military industry, and was considered as one of the most advanced technical schooling facilities in pre-WW2 Yugoslavia. On the pre WW2 *Zastava* or Military Works educational tradition (Miljković 2013). During the war the factory sustained heavy human and material losses and when the production resumed in 1945, only 5000 workers and 82 (1.5 per cent) mainly damaged machines remained from before the war. *Zastava's* production facilities were confiscated, and at the end of war dismantled and shipped off to Germany (Micić 2013, 24; Zečević 2006; Milojković 1973). By the 1948 *Zastava* regained its position as the leading producer for military purposes as well as the most efficient Yugoslav factory in the post WW 2 period (Plestina 1992, 40). However, because of the perceived threat from the Soviet Union, following the Tito-Stalin split, *Zastava's* most important military programs along with expert work force were relocated from Serbia to Bosnia, as a part of general relocation of the strategic industrial facilities, including motor industry, from Serbia further west. The IMR truck factory had to relocate its complete program with blueprints and machines to TAM in Slovenia (Miljković 2013, 70).

Consequently, *Zastava* was struggling to find production contracts to secure incomes for its remaining employees and needed to diversify into civilian production. After a contract for the assembly of the US Willys-Overland military jeeps fell through in early 1953,¹⁰ *Zastava's* workers decided to diversify into the production of automobiles. On a referendum on August 26, 1953 *Zastava's* workers overwhelmingly voted in favor of automobile production. *Zastava's* Workers' council conveyed their initiative to the central government planners, who in turn were supposed to assimilate those ideas into the larger plans (Micić 2013; Zečević 2006; Milojković 1973). They requested that the production rights for assembling of automobiles be included in the international tender that the Yugoslav government issued in 1953,¹¹ to find for *Zastava* a suitable partner for the cooperation on the license production of vehicles (Zečević 2006, 39–40).

¹⁰ The contract fell through because of the unfavorable contractual conditions for *Zastava*.

¹¹ According to self management the workers' council communicated their initiative to the central government planners, who in turn were supposed to assimilate those ideas into the larger plans.

FIAT won the tender because it offered *Zastava* both military and civilian vehicles with the best technical characteristics under the most affordable manufacturing license (Vlajić i Zeković 1974, 30).¹² The ten-year contract signed on August 14, 1954, provided for the complete technical support in the license production of 1500 jeeps, 1500 trucks and 7000 passenger automobiles. The cost of the license was 350 million Italian liras (\$ 560,000) to be repaid not in currency but through future purchase of components from FIAT some of which to be compensated under war reparations. “Contract de licence cession et technique and collaboration” (Turin, 12 April, 1954) was the first agreement for the economic cooperation between a Western company and an Eastern European country in the post WW2 period (Sigelbaum 2008, 88).

The commercial contract between Fiat and *Zastava* inaugurated a long-lasting economic cooperation between Italy and Yugoslavia. It was followed by the signing of “The Memorandum of Understanding”, which represented a milestone in the process of normalization of political relations between Italy and Yugoslavia and the peaceful settlement of the contested border disputes between the two countries (Ružičić-Kesler 2014, 641–644).¹³ For the Yugoslav regime Italy was an acceptable version of the Western consumer society. Fiat was deemed as “capitalism with a human face”, and therefore acceptable for cooperation because, in spite of its profit-oriented motivation, it had a long-term interest in developing Yugoslav potential. Conversely, for many Italians Yugoslavia represented “communism with a human face” (Chivino 2015).

Zastava Pioneers: Formative Years of Automobile Factory 1954–1962

The textbook CPY’s theoretical explanation of the Yugoslav development since 1952, is provided by the historian Dušan Bilandžić who claimed that the CPY¹⁴ sided with the masses when it transformed from revolutionary statism into self-managing socialism:

¹² The competitors included FIAT, Renault, Delahey, Alfa-Romeo, Rover, Austin, Jembachwerke and Willys.

¹³ Following WW2 Italy and Yugoslavia signed the Peace Treaty, that gave possibilities for economic relations despite the political disputes over the status of the FTT (Free Territory of Tries) compromise regarding the FTT reached by the signing of “Memorandum of Understanding” on October 1, 1954, allowed the establishment of stronger economic ties although the final territorial Treaty was finally formalized on November 10, 1975. On bilateral relation between Italy and Yugoslavia as a role-model in bridging the ideological divide in the Cold War Europe.

¹⁴ In 1952 the Communist party of Yugoslavia was renamed League of Communists – LCY.

"Thus a new quality ... was in the fact that the CPY switched from theory into revolutionary praxis by saying that the process of withering away of the state cannot be prolonged for the future—as Stalin used to say—but it must start right away, especially in the field of managing the economy" (Bilandžić i Tonković 1974, 23).

However, *Zastava*'s example shows that the process of de-Sovietization was painful and slow. When in 1954 *Zastava* workers began to assemble automobiles under the contract with FIAT, they were exercising their constitutional rights¹⁵ as a work group of their self-managed enterprise. They even self-financed (by using their salaries) the adaptation of the workshops in the run-down ammunition factory for the automobile production. Several hundreds of *Zastava* assembled luxurious FIAT 1400 B's were paraded as "socialist sector" on May Day in 1955. However, *Zastava* workers' self-initiative was not supported by the upper echelon of command and control of Yugoslavia. While the basic premise of self-management socialism was that the local people had an inalienable right to control local resources and to decide on how and what to produce, the Government retained control over the process of economic development through planning, distributing resources of the Central Investment Fund.

In their approach to Yugoslavia Western commentators generally overlook the ethnic complexity of the Yugoslav federation: e.g., Palaret considers that the Government planners obstructed *Zastava*'s development because they did not consider automobiles as a priority in the socialist development (Palaret 1994). Normand unproblematically assumes that the change of attitude towards automobility started with Tito's 1955 announcement of consumer production, and following that, the Government intended to increase capital investment into commodity production in order to achieve rapid industrialization based on integration into international division of labor along with the high standard of living, there was much room for controversy and apprehension as to how the new course of industrial development intended to improve opportunities for all Yugoslavs (Normand 2011, 97–98). In his speech Tito essentially advocates capitalism and economic dependency on the strong capitalist West. According to Lindblom Tito was actually paraphrasing Adam Smith's division of labor and developmental model in which he found the foundation of market socialism (Lindblom 1977, 339).

The very notion of the "weak and backward enterprises" was based on an old dichotomy between modernism and backwardness. Here the industrial

¹⁵ Workers were constitutionally assured a right to work with socially owned means of production and, in turn, self-managed enterprises were required to maintain and increase the value of the means of production which they had been occupying and using. *Constitutional Law on Basics of Societal and Political Association of Federal People's Republic of Yugoslavia and Federal Organs of Power* from 1953.

modernity is envisioned not through Marxist reification, fragmentation, and self-interest, but as corporatism that Adam Smith's theory of moral sentiments saw as a promise of capitalism. In his famous speech in Split, which coincided with official visit of the Soviet leader Leonid Brezhnev, Tito denounced Yugoslav capitalist practices and blamed the poor existing social and economic conditions on excessive liberalization, i.e. on selfish and profit-seeking general managers' and executives of various companies. Since the proposed developmental policy called for the transfer of factories from already deindustrialized Serbia to Slovenia, as well as closing *Zastava* and shipping off its remaining industrial facilities to Croatia, it triggered an acute conflict among the members of the Yugoslav Federal Government.

According to Zečević the relocation of *Zastava* was prevented by somebody high up in the Military (Zečević 2006, 57). The industrial relocation was postponed,¹⁶ but this early event is most indicative of how the shift that came with the increasing competition for resources and struggle inside the LCY eventually resulted in diverting the striving for the full worker's democracy and labor unity into the fateful path of "decentralization" along the national lines that Boris Kidrić warned against early on. Already in 1947 Boris Kidrić warned that decentralized workers' self management along the lines of republics would inevitably lead back into state capitalism, several state capitalisms particularistic towards the whole. Kidrić recommended giving self-management a vertical dimension, by electing workers from the various republics to make global economic decisions in the best interests of all. From then on each republic focused on its own economic development and on developing its own industries, with little or no coordination with the other republics.

Against the background of these unpromising circumstances, a change at the *Zastava*'s top executive level took place in mid-1955. General manager Vojislav Radić, an ex-partizan hero and a former *Zastava* worker, was replaced by Prvoslav Raković, an executive with special professional managerial skills and experience, to take charge of setting up and organizing automobile production and boost industrialization in Serbia. According to Miljković, Mijalko Todorović was instrumental in Raković's appointment as managing director of *Zastava*. The introduction of the complex automobile production that started with Raković's appointment would effect the change in personnel policy of the *Zastava* enterprise towards an upsurge of expert managerial over party cadres within less than a decade of adoption of self-management (Miljković 2013, 73). The inescapable need for the highly specialized division of labor meant that it

¹⁶ The transfer of factories from Serbia to Slovenia was postponed because of the fierce opposition from the Serbian members of the government, see the CIA document declassified in 2008. CIA-RDP80-00810A008600430009-4.pdf

was the enterprise engineers and technicians (and not the theoretically self-managing workers) who made most of the key decisions, although the workers did have the right to approve them. Education and access to information and other resources gave specialist a significant advantage over ordinary workers that eventually produced sharp social divisions. Commentators have observed that *Zastava* had a good fortune to have at its start up a "dynamic engineer with great physical and mental strength" (Chivino 2015, 60), as well as a "first-class" general manager with the outstanding strategic leadership capabilities, determined will and courage to transform *Zastava* into a modern automobile company. In theory, general manager was empowered to represent his enterprise and was requested to endeavor to develop the enterprise. However, Raković's endeavors and initiatives were hindered by the central Government: not only did he have to learn the ropes of how to establish automobile production from the scratch, but he also needed to develop ways to beat the system in order to achieve his goal.

As soon as he assumed his duty, Raković was ordered by the head of the Ministry of People's Defense, Ivan Gošnjak, to lay-off half of the work force deemed as redundant.¹⁷ Rather than to acquiesce such a demand, Raković proposed to enlarge the production of the FIAT's best selling, small and affordable model "600 D" to avoid layoffs. After his proposal had been rejected (the rejection came with the explanation that automobiles were unnecessary and beyond the reach of the Yugoslav citizen), Raković turned to Fiat and in 1956 renegotiated a second deal for the interest-free commodity credit of 150 million liras for the additional 2000 "FIAT 600s"¹⁸ to be included in the original license contract (Grujić 1989, 57–58).

Zastava started its automobile production with a handful of engineers, technicians and highly skilled gunsmiths. According to Raković only 15 engineers and 70 technicians were assigned to the automobile production (Andjelković i Ostrečki 2002b). The rest were semi-skilled workers. The introduction of the new technology for the production of automobiles depended upon specialized professional and expert skills. Thus the most important issue for the *Zastava* management was to find machine engineers with expertise in various car production operations. Because at the time machine engineers in Yugoslavia were in high demand and short supply and had their pick of places to work, in order to attract and retain expert engineers it badly needed *Zastava* was offering them very favorable contractual conditions as well as awarding generous stipends to engineering students. Benefits included a stimulating salary, the use of the

¹⁷ *Zastava* was part of the military establishment and since the military intended to finance only military programs they considered that the small automobile program could not employ all workers.

¹⁸ "Annex to the Contract License Agreement and Cooperation", approved by the Secretariat for Industry (SIV), September 10, 1956 (AJ 1956, F-253).

factory car, free accommodation, no work on weekends etc., and to top it off a car as a present when the serial production of cars begins. At the time there were only three automobiles in Kragujevac (Vlajić i Zeković 1974, 34).

However, these practices resulted in dissatisfaction of the older workers, those skills and experience were becoming less applicable with the introduction of the automobile production and who felt threatened by the new generation of engineers with education but no experience. In the period between 1956 and 1962, they were gradually trained in the basic operations of automobile manufacture and they acquired a level of technical education necessary for the new production technology. Eventually highly skilled workers became the core expert group in the new production process. Even though Raković managed with the strong-handed manner his effective leadership brought him respect both at the top and the shop levels. Workers were both concerned for their jobs and loyal to *Zastava*, hence they were prepared to shoulder burdens and make sacrifices for the sake of the long-term well being of their enterprise (“Kako smo gradili Zastavu” 2002).

The next step for *Zastava* management was to create conditions necessary for the transfer of technology by selecting and preparing a team of capable engineers and technicians who would be directly involved in the process of setting up and organizing new industrial facilities and implementing new automobile production technology. In 1956 a “squad” of 14 *Zastava* experts led by Raković went on a two-month tour across Europe visiting leading manufacturers of automobiles, spare parts, engines and equipment in order to study first-hand their industrial practices and technologies. All the knowledge and data carefully gathered on the study tour were compiled into a blueprint book-size document with prescription of adequate procedure, norms and technical documentation for construction and building of new industrial complexes. It was also during the study tour that the decision was made that *Zastava*’s main program would be based on the popular Fiat 600 model.

When in 1957 Fiat extended the contract with *Zastava* for the production of additional 20,000 Fiat “600s”, Raković submitted a feasibility project proposal (Feasibility project report 1956) for a completely new factory both to accommodate the capacity of 32,000 vehicles per year and to match the standards set up by FIAT. It took Central Government planners six months to review the project and turn it down as excessively ambitious and unnecessary. The permission was eventually granted but without any funding (Grujić, 1989, 58–59). In spite of numerous obstructions by the Government, Raković concluded the agreement with Fiat on May 25, 1959 for the investment of 30 million US dollars into the building of the new *Zastava*-owned factory under very favorable conditions (Grujić 1989, 62–63).¹⁹ The contract provided for the production of 27,000 pas-

¹⁹ Raković’s retells the dramatic way *Zastava* obtained the \$30 million loan from *Fiat*. According to Raković Yugoslav government obstructed negotiations because it

senger cars and the complete mastering of modern technological procedures until 1964. The construction of the new factory began in April of 1960 and it was finished in July of 1962, six months before a given deadline. It has been observed that by "work[ing] single-mindedly to develop this small semi-mechanized operation into a fully fledged assembly plant in the face of unremitting obstruction by the planning aparat" (Palairret 1994). Raković accomplished a truly "Herculean Task" (Vuic 2010, 49). Indeed, he was proud with what he had accomplished without the benefit of the Federal government's investment Fund (Grujić 1989).

Over the next twenty years Raković would develop *Zastava* "with courage and perseverance" (Chivino 2015) into one of the largest companies in Europe. But, as Raković acknowledged, this could not have been achieved without bending the rules first. And he went on to explain how he had arranged with the constructors to illegally enlarge the floor space by 16,000 m² to accommodate the capacity of 82,000 vehicles, to avoid having to go through the same administrative hoops again because he knew that the approved capacity would soon be exceeded. Raković was publically accused of cheating, but since the new factory was already a *fait accompli*, his accusers had to deal with the fact, especially since Mijalko Todorović, a high government official, defended the project in the name of the brave people of Yugoslavia (Grujić 1989, 59; Janković 1993, 60). Todorović's was not an empty platitude, since the speedy completion of the factory was achieved with joint efforts and enthusiasm of many participants including the labor of voluntary youth brigades from all over Yugoslavia.

New Zastava Automobile Plant: beginning of the serial production (1962–1965)

The new *Zastava* automobile plant was one of the most advanced manufacturing facilities for the serial production of automobiles²⁰ in Europe featuring the assembly line delivered by FIAT from Turin (Janković 1993, 55; Vlajić i Zeković 1974, 35–37; AJ 1958, F-589; 1961a, F-253). The factory went into operation on July 7, 1962, with the capacity of 32,000 vehicles under strict, high-quality production standards prescribed by FIAT (Micić et al. 2013, 290; Zečević 2006, 133). The newly imported high-tech production machines were semi-automatically controlled and required superior technical skills to operate them. The Fiat's standards were adopted quickly because the workers had

applied for the loan of \$25 million from the Italian government and considered *Zastava* as a competitor, because they were afraid that if *Zastava* obtained the loan would undermine their chances for obtaining their loan.

²⁰ Including the latest generation of IBM computer system for automotive industry.

already been prepared and properly trained for similar operations and were able to master all the new operations with ease. They had been additionally assisted by the FIAT's experts to acquire necessary skills for the tasks at their individual stages of work operations. A number of engineers, technicians and highly skilled workers were trained in FIAT's plants to obtain know-how in automobile production. In 1961, seven managers visited FIAT factory, and another four visited Belgium and West Germany for the duration between five to twenty-five days. The aim of these visits was to study work organization, to negotiate equipment purchase and to put the new factory into operation. All visits were previously approved by the Motor and Motor Vehicles Council – Federal Industrial Chamber (AJ 1961b, F-253).

Early on Raković initiated *Zastava's* research and development program in cooperation with FIAT, as a result of which the Department for Research and Development was established in 1964. The R&D initially made adaptation of the Fiat's models to the needs of the Yugoslav and later on also for foreign markets. Starting with the first project of changing the opening direction of doors on the popular "Fiat 600 D" renamed "Zastava 600-D", the R&D subsequently made a large number of modifications on *Zastava's* main programs, the "Fiat 1300" the "Zastava 101", and the "Yugo" model, primarily on its version intended for the USA market (Janković 1993, 88–89; Obradović 1999). Over the years *Zastava* R&D accumulated remarkable know-how and competence (Hirschhausen and Bitzer 2000, 66).

With the new factory set up and running by the time when the economic crisis culminated in the second half of 1962, *Zastava* had already embarked on an expansive production of automobiles, by taking an early advantage of FIAT's capital, skills and technology. In the 1960s *Zastava* went through a period of prosperity, its production could easily expand due to the rising demand for cars in Yugoslavia despite a strong competition from the imported cars, and as ads from the daily papers illustrate (Marković 1996; Micić et al. 2013, 101; Normand 2011, 97–98; Paillet 1994). Thanks to the new facilities for the large-scale car production, *Zastava* was able to continuously increase its output of passenger automobiles from 1,069 in 1956, to 25,960 in 1964 (Micić et al. 2013, 101–102).

Furthermore, *Zastava's* success constituted a positive factor for the economy of Yugoslavia as a whole since, according to the Yugoslav model of the production process, the manufacturing of the critical car components was dispersed all over the country regardless of costs associated with distances. *Zastava's* cooperation with FIAT held out the promise of prosperity for all through technological advances, however, in practice, *Zastava's* many subcontractors either could not or would not keep up with *Zastava's* pace of development. As a result, its own industrial performance was further impeded by the inferior quality of tools and critical components produced by domestic manufacturers. The poor quality lev-

el of tools and even reversed the recently established technological processes to pre-established patterns and practices; e.g. by turning off automatic switches and operating machines manually the "old way" they were used to.

In order to keep up with the achievements of the FIAT and other leading automakers, *Zastava* needed to invest in modernization 10–16 per cent of its total revenue per year ("Šta sve vuče fića" 1963). However, in the Yugoslav system committed to distributive justice resources were allocated irrespective of returns on the capital invested. Thus even when *Zastava* was in position to invest in manufacturing facilities that would best suite its needs, the Government intervened by either rejecting the proposal or by channeling those funds to underdeveloped areas with poor infrastructure and unskilled workforce. *Zastava's* management's proposal to internalize the production of its most critical component – the engine for the popular Fića program in an effort to minimize transaction and transportation costs was rejected by the Belgrade politicians. *Zastava* consequently had to rely on the motor factory in Rakovica, Belgrade with all the consequences such arrangement entailed. Such misallocations generally produced overall inferior results. Consequently, *Zastava* had to deal with a wide number of its sub-contractors' defaults that increased overall costs of production. Since losses were ultimately absorbed by *Zastava*, its profitability was diminishing so that the available funds were barely enough to cover the operating costs of existing production (Andjelković i Ostrečki 2002a). These costs were eventually paid through deficit spending programs and high protective import duties on automobiles, while *Zastava* made its automobiles available to more buyers by setting up installment buying plan through its bank.

With the rapid expansion and diversification of production especially since the opening of the new factory in 1962, *Zastava* needed ever more work force. Since the constantly incoming production workers, who were recruited mostly from the rural areas around Kragujevac, lacked adequate skills and education, the factory management had to place great emphasis on transformation of peasantry into industrial workers by constantly organizing various on-the-job training and technical education courses necessary for the modern production process and the use of the new technology. The massive and constant expansion of *Zastava's* production between 1962 and 1980 was able to permanently absorb local rural population and migrants mostly from Kosovo in better paying positions with a wide range of social benefits.²¹ However, a problem of bridging the educational and status gap between *Zastava* experts and the rest of the work force remained since both blue-collar and lower-level white-collar workers were predominately of local peasant origin.

²¹ The peasant-workers have made up a third or a half of industrial work force in Yugoslavia with their high rate of absenteeism during the agricultural season.

Zastava and High Market Socialism (1965–1974)

Zastava was one of the first enterprises to introduce market mechanisms into the process of self-management because its export oriented automobile industry needed to improve efficiency and intensify production by gaining access to capital for development, to be competitive on the world market. The newly implemented measures especially important for *Zastava* were: dismantling of Central Investment fund and distribution of capital directly into republics and enterprises, and the elimination of most central controls over the workings of the market; legalization of foreign investments up to 49 per cent (“The Law on Investment of Resources of Foreign Persons in Domestic Organizations of Associated Labour” 1967); strengthening of the power of enterprises by reducing the taxes on enterprise net income to below 40 per cent (Estrin 1991); and enhancing the executive authority of general managers over hiring employees intended to undermine pressures from local socio-political structures. The level of income was a subject to collective bargaining that involved trade unions, management and workers’ councils.

Zastava was the first Yugoslav enterprise to set up its own bank already in 1964. The two main aims *Zastava* intended to achieve were to provide the cash flow necessary for financing its continuous R&D and to increase efficiency of its operations by transferring the management of *Zastava*’s entire financial system to its bank. The fiscal measures *Zastava* had taken enabled the factory to establish a continuous serial production, realize its economic potential and achieve high income. In this period 60 per cent of *Zastava*’s financing was provided by Yugoslav financial institutions and *Zastava*’s own resources.²²

As the process of decentralization, economic liberalization and the concentration on the particular interests of local and enterprise level was taking place in Yugoslavia since the mid-1960s, the opposite trend towards economic integration and cooperation was taking place in Europe. The trend towards consolidation, and mergers into more efficient, specialized and profitable companies, was especially evident in the industry of motor vehicles. With minimum efficient scale of production at an assembly plant estimated at 150,000 vehicles at the time, as opposed to Yugoslav total output of mere 35,880 vehicles, consolidation of the Yugoslav auto industry would have improved efficiency and profitability by reducing costs. However, such rationalization, if effective, would have brought job losses, which would be incompatible with self-management employment policy. *Zastava*’s initiatives towards closer cooperation

²² With the dismantling of the Central Investment Fund, and distribution to republics and “self-managing” enterprises, the capital was very quickly used up, increasing the enterprises’ dependence on the banks.

with other Yugoslav automakers in the mid-1970s largely failed because of the competition, little economic coordination among republics and the lack of market cohesion.²³

Nevertheless, *Zastava* achieved a higher level of integration with its suppliers, while the cooperation with sub-contractors generally improved through the mechanisms of the "community of interests", instituted in 1967 as a new form of self-management networking intended to balance competitive needs and interests among producers in auto-industry. This model of cooperation was introduced into all spheres of self-management in 1974. *Zastava* management's efforts at this time were directed towards integration into world division of labor and securing investment through entering into closer cooperation with international partners in order to realize the "phase 2" of development that projected an output of 170,000 automobiles, a large production of components, as *Zastava*'s participation in the world market, and the launching of a new main model of automobile through cooperation with a foreign partner with the capacity of 100,000 vehicles per year. The realization of the "phase 2" required organizational changes of production process (technical units became sectors) and technological improvements that depended on foreign investments.

During this period, Yugoslav-Italian good neighborly relations and economic cooperation became even stronger. Aldo Moro's visit to Belgrade in 1965 was the first official visit to Yugoslavia by an Italian prime minister (AJ 1965, F-130). Italy granted Yugoslavia loans for economic development and secured Yugoslav exports to the EEC through an increased volume of trade that amounted to 76 per cent of the total exports in the West (AJ 1964, F-837). Yugoslavia became the first communist country to establish diplomatic and special trading relations with the EEC in 1968 through cooperation with Italy. The most important development for *Zastava* at this time was the signing in 1968 of the new contract with FIAT for the permanent bilateral cooperation with and financial participation of FIAT in *Zastava*.²⁴ The contract also included the first agreement for joint venture signed in Yugoslavia. In 1968 Fiat invested \$5 million in additional \$12 million in 1969 (Bojanić 1986, 168–169). The cooperation with Fiat opened the doors for substantial participation of international financial institutions in *Zastava* e.g. The International Financial Corporation (IFC) and The International Bank for Reconstruction and Development (IBRD).

²³ In addition to *Zastava* as a major car producer, there were four other car assemblers: UNIS (TAS) in Sarajevo, Bosnia and Herzegovina; Tomos (Cimos) Koper, Slovenia; Litostroj in Ljubljana, Slovenia; and IMV in Novo Mesto, Slovenia. The initiative to cooperate on the project of a Yugoslav vehicle in the mid 1970s failed.

²⁴ "The Agreement on technical and production cooperation and financial participation of FIAT in ZCZ", Torino 1968, February 23.

During this phase of the Cold War, characterized by détente policy in Europe, Yugoslavia and Italy played an important role in promoting economic cooperation beyond the East-West ideological barriers. Owing to Yugoslavia's intermediary position, and *Zastava's* long-established cooperation with Fiat, *Zastava's* top management led by Raković, acted as a go-between in business arrangements and negotiations between the Eastern Bloc countries and FIAT: in 1965 between Poland and FIAT for the license production of "Fiat 1500" by the Polish Fabryka Samochodow Osobowych – FSO; and between the Soviet government and FIAT for the license production of "Fiat 124" model under the name "Lada".²⁵ In 1966, a gigantic turnkey car plant AvtoVAZ (Volski Automobilski Zavod) was built and named Tolyatti-grad (Micić et al. 2013, 132–133). In fact, as FIAT's Oddone Camerana remarks, the cooperation between the East and West during the Cold War was more active and diverse than it was officially suggested. And he goes on to explain how "in great secret in areas beyond the Iron Curtain, the West and the East were meeting, and Marxism and Capitalism were becoming closer than could have been believed" (Chivino 2015, 6). By the time the Soviet Government officially proclaimed the policy of détente with the West in 1969, FIAT was already established as a business partner of the Soviet Communist leadership.

As one of the founding members of NAM, and respected member of G-77 group of developing nations, Yugoslavia extended its influence and contacts outside of the communist world and the Cold War politics. Newly industrialized Yugoslavia became an important supplier of inexpensive machinery to Third World factories and peasant-owned farms. *Zastava* extended its markets in the Third World countries such as Indonesia, Lebanon, Egypt, India, Libya, Pakistan, Cambodia and Columbia. The socialist Yugoslavia also enabled Fiat to sell through *Zastava* its off-road vehicles and trucks in the third world countries that, otherwise, would not purchase the same vehicles from the capitalist Italy. However, Yugoslavia's hopes that the cooperation with the Third World countries would enable the country to lessen its economic dependence on the EEC did not materialize because only limited Third World transactions paid hard currency for Yugoslav goods. Even though the NAM was of little practical value to Yugoslavia, Tito was committed to new universal social movement and channeled the aid into underdeveloped countries from the loans Yugoslavia obtained from the West.

In the meantime passenger automobiles in Yugoslavia were riding an unprecedented surge in demand. While in 1965 *Zastava* was able to cover 70 per cent of the Yugoslav market, the production began to stagnate in 1966 and by 1968 *Zastava* could cover only 45 per cent due to the lack of finances to enlarge

²⁵ The negotiations on the possible cooperation between *Zastava* and the Polish auto makers were initiated already in 1961.

production capacities (Micić et al. 2013, 124; Vlajić i Zeković 1974, 40). Even the combined production of all Yugoslav carmakers was able to cover half of domestic market demand. To prevent shortages, Yugoslavia had to rely heavily on imports. With FIAT's investment, Zastava was able to increase its output to 75,000 vehicles in 1969, and to conclude the "Phase 1" as provided by the 1968 agreement.

Under the new joint venture agreement a special technical department was established in Turin where experts from FIAT and *Zastava* collaborated on the new "Zastava 101" model as a derivative of the "Fiat 128", an innovative front-engine, front-wheel drive model and named the European car of the year in 1970. The "Z 101" represented an improvement over the "Fiat 128" for being a hatchback. Owing to its affordability, practicability and sturdiness the "Z 101" fifth-door lift-back model became *Zastava's* most popular and best selling car on domestic market also used for taxis, government and police vehicle. When the full-scale production of the "Z 101" was launched on October 15, 1971, *Zastava* had diversified its production program and upgraded its technological level. The assembly of the Z-101 brought *Zastava* to trade with Comecon. This model was created to develop an interchange market among different industrial units in Eastern Europe that produced Fiat by-products employing similar Fiat components: e.g., the "Z 101" shared many of the components with the Soviet "Žiguli" (Lada) and the Polish "125P". In 1966 a cooperation contract (1967–1975) was signed between *Zastava* and Polish automakers. In early 1970s *Zastava* became the major component supplier for Poland and the USSR and in exchange supplied the Yugoslav market with the Soviet Ladas and the Polish Fiat (Palairret 1993, 118; 1994, 95).

Raković's long-term goal (Phase 3) was to achieve the assembly production of 500,000 vehicles by 1977, and backed by Fiat,²⁶ to establish *Zastava*, as a large-scale supplier of automobiles to the Eastern Bloc markets, taking payments in components. In Palairret's view, Raković's plans were not based on unrealistic, exaggerated expectations but, rather, they intended to exploit Yugoslavia intermediary position between the East and West. Besides, it was the only chance for *Zastava's* long-term viability (Palairret 1994, 95). However, this endangered domestic suppliers of component parts in Yugoslavia and did not generate hard currency. The first oil crisis in 1973 affected severely Yugoslav economy, which already faced stagnation and a staggering rise of hard currency debts. The crisis affected world automobile industry. As a result of auto sale slumps, *Zastava* suffered a significant financial blow. Furthermore, the oil crisis magnified *Zastava's* financial difficulties because it coincided with the

²⁶ In the 1960s and 1970s Fiat was rapidly expanding, it acquired Lancia in 1968 and Ferrari in 1969.

repayments of loans taken for the production line of the “Z-101” model (Janković 1993, 107–108). Raković was replaced in 1974, and the new management made a decisive turn to the Western market to boost hard currency. It also became evident that the Z-101, could satisfy domestic and Comecon standards but not Western market. Hence *Zastava* management made a decision to introduce a new, up-to-date subcompact model to meet the requirements of both domestic and European markets in terms of price and fuel efficiency independently of FIAT, however in the mid-1970s *Zastava* faced challenges of how to enlarge its production in order to repay debts and at the same time to pull a big project together – an all-Yugoslav-made car.

Market socialism was remarkably successful for *Zastava*: it became one of the most modern and largest automobile companies in Europe, established the first successful post-war automobile industry in Eastern Europe, enormously increased production, enlarged its network of suppliers and successfully integrated into Eastern and Western markets and financial and trade institutions. In 1974 *Zastava* produced 136,225 automobiles, 12 times more than 11,255 in 1962 and had 30,288 employees (Micić et al. 2013; Vlajić i Zeković 1974). However, the overall aim of the 1965 reforms in Yugoslavia failed mainly because self-management proved to be incompatible with the market principles. Even though the major intent of the market socialism was to achieve efficiency by eliminating unprofitable “political” enterprises, bankruptcy was in conflict with self-management and employment policies. Thus they remained and continued to block economic development and the technological improvement of successful enterprises. On the other hand, the conditions of market competition led to the monopoly of the successful large-scale enterprises and strengthened the influence of managers so that the Communist Party feared the threat to the power. Under the pressures of capitalist market system on the one hand, and factions and pressure groups that consistently put their own particular interests above collective ones, on the other, the practice of self-management became increasingly dysfunctional. However, it was argued that self-management was ineffective because managers were usurping decision-making authority.²⁷ The high point of the constitutional institutionalization of the political backlash against the increasingly independent managers, the so-called “technocrats” was the massive purge 1974 at the high managerial level of the successful large-scale industrial enterprises especially in Serbia (Grujić 1989; Janković 1993). According to Branka Magaš (Magaš 1993, 83) “Sectors that gained included managers of export-import companies who enjoyed a meteoric rise, as well as managers of banks and financial institutions”.

²⁷ *Zastava*'s experts often needed to bypass (violate) self-management procedures in order to achieve operational efficiency in the production process.

The Purge of "technocrats" a.k.a. "collective self-management entrepreneurs": the case of Prvoslav Raković

With the transferring of the power to the republics since 1963, the municipalities within them were simultaneously strengthened. At this time the official ideology was supporting self-management defined in terms of enterprise and community autonomy (local control). Autonomy meant self-sufficiency, "making a go" of the enterprise or the commune without further straining the state's resources. By shifting responsibilities to the community, the state delegated the power and authority to the local governments who were in charge of raising funds, setting their own budgets, and providing workers with necessary social services (Zukin 1975, 61). The reforms of 1965 also served to distance the central government from the focus on local conflicts of interest. The norms that give rise to trust and cooperation between enterprises and their communities were embodied in informal and local institutions and arrangements. It was through this process that *Zastava* supported the community of Kragujevac, and the community of Kragujevac in return understood that the success of *Zastava* and the community of Kragujevac were interconnected. With the expansion of *Zastava*, the town of Kragujevac also grew²⁸ as did the personal power of the local bureaucrats through distribution of monies and resources. This inevitably led to competition over control of resources whereby both *Zastava* and the town of Kragujevac protected their often contradictory interests.

In his role as "collective self-management entrepreneur,"²⁹ Raković increasingly clashed with the elements of administrative management and interests of local bureaucracy. Since *Zastava* was a major source of financing of the entire region, no doubt some of its moneys were channeled into the clientelistic network of local bureaucrats for non-public purposes. However, when in early 1970s *Zastava* found itself under pressure in number of ways, Raković refused to yield to the pressures by the Mayor of Kragujevac to give over and above of what was required in taxes, by stating that he had to protect the interests of the *Zastava* collective. His attitude incurred official disapproval at the republic level. The barrage of accusations against the selfish behavior of *Zastava* general manager started locally and the campaign soon took the form of political campaign against the "technocrats" who were accused as main culprits for all failures. It is important to note that the campaign did not start from the shop floor but that it was entirely organized from above by the party bureaucrats.

²⁸ Since the opening of *Zastava* new factory Kragujevac grew in population from 35,000 to almost 150,000, which meant that almost every fourth citizen of Kragujevac was employed by *Zastava*.

²⁹ This specifically Yugoslav oxymoron reflects the self-contradictory position of the executive officials in industry.

While the difference between the highest and the lowest income groups in Yugoslavia in the 1970s was egalitarian by international standards, differentials existed between different industries, enterprises and same industries in different republics. *Zastava's* workers earned above the Serbian/Yugoslav average, but much below Slovenian and Croatian standards, let alone capitalist countries, such as West Germany, where the majority of Yugoslav workers were employed in automobile industry and earned more doing the same job. Workers generally supported liberal economic reforms of 1965 and the expansion of competition. According to Slovenian Statistic Bureau the income ratio between unqualified to highly qualified workers was 1:2,76 in 1963 and 1:2,38 in 1973 (*Slovenija 1945–1975*, 164). The constitution of 1974 endorsed the LCY bureaucracy to exert political influence on the business decisions of the managers in the name of workers, but the contradictions between single enterprises and their communes and the society as a whole were not resolved (Bajt 1984).

Zastava and the System of Associated Labor (1974–1980)

Prvoslav Raković was replaced by Milenko Bojanić who ran *Zastava* between 1974 and 1982. The new general manager was a high-ranking political official with banking background but no industrial experience. Bojanić found the solution for the sale of car stocks by allowing extended lines of consumer credits as a way of payment. Under Bojanić a new management board was formed and the reorganization of *Zastava* was carried out in compliance with the “Law on the Associated Labor.” Consequently, a huge company that incorporated nine separate factories was broken up into financially and commercially independent basic organizations of associated labor (BOAL) and eventually consolidated into a “Composite Organization of Associated Labor” [Složena Organizacija Udruženog Rada: SOUR]. *Zastava* was a combined enterprise officially called SOUR comprised of 85 financially and commercially independent BOALs – each of which with its own self-management apparatus as well as of 28 work communities, 5 of which were “SOURs”. Of the *Zastava's* 49,476 employees, 6,300 served as delegates associated with various socio-political organizations (*35 godina radničkog saveta* 1985, 58).

Instead of regulations imposed from above, the new planning was to be carried out through what Yugoslav theorists referred to as “agreement economy,” under which “self-managers” would “competitively cooperate” by means of agreements or compacts. The relations between economic and social organizations were to be based on co-planning under contractual mechanisms of the so-called self-managed community of interests (SIZ) based on the principle of “delegates” starting from BOALs which in turn elected delegates in political and govern-

mental organs. The idea was to bind enterprises more closely to the greater social interests. Instead of badly needed productive investments and technological and economic rationalization to increase productivity, the new organization produced an even bigger and less efficient administration and bureaucratic apparatuses. The number of administrative workers increased by 44,3 per cent between 1972 and 1978 (Horvat 1984, 144). While *Zastava's* contributions to the community (bureaucracy) increased, little investment went into *Zastava* between 1965 and 1983 except in 1970–1971 and 1979–1980 (Palairret 1993, 121).

With the finances finally obtained in *Zastava* increased the production to 180,000 automobiles in 1978 and achieved its peak production of 186,000 automobiles in 1979. In 1980 the conditions were finally ripe to launch of the new Yugo model. At the same time *Zastava* started to assemble the complete "Fiat 128" line. The beginning of the mass production of the two new lines of automobiles was a unique financial and organizational challenge for *Zastava* because the complex process of organizing the two simultaneous projects depended on efficient coordination between production, administration and financing in the management of each of the two programs in collaboration with an extensive network of the many sub-contactors from all over Yugoslavia. On the one hand, the management of the *Zastava* production sector gained more efficient control over finances by being able to pool resources among several BOALs, and bypass the habitually slow administrative procedures. On the other, workers, as direct producers, had even less control over disintegrated production process and became increasingly alienated from the production process and self-management. The practical impact of the change was disappointing.

Furthermore, because the Government failed to transfer emphasis to technologically advanced industries able to replace imports and expand exports, by the time the full-scale production of the "Yugo 45" with the capacity of 80,000 automobiles per year began on November 28, 1980 (Micić et al. 2013, 320). *Zastava's* facilities were already outdated and some production segments were not substantially changed from 1962. The obsolete technology and equipment negatively impacted the quality of production: the "Yugo 45" model was considered outdated by its critics who pointed out that it was based on an old-generation FIAT, as it was a version of a decade-old "Fiat 127". There were also alleged issues with the quality of assembly and reliability of the automobiles. In order to solve these problems *Zastava* needed long-term and large investments.

The year 1980 was crucial for the Yugoslav federation because President Tito died and his death ended the era. Already in 1981, the Yugoslav collective government was on the verge of bankruptcy with more than 20 billion dollars debt. The global recession and rising oil prices on the world market deteriorated conditions of trade for Yugoslavia. Between 1980 to 1985, the industrial production declined, since the increasing prices of fuel, raw materials, spare

parts and components all needed for the exporting industry resulted in increased production costs and loss of competitiveness. The economic stagnation produced economic crisis. The crisis led to a series of “stabilization programs” that attempted to increase export and competitiveness in the world market, but the standard of living underwent the shocks of the IMF austerity policy, workers dissatisfaction and strikes.³⁰ Under the pressures to keep up with repayment of the foreign debts, *Zastava* reoriented its exports of the *Yugo* program to the US market in a desperate attempt to obtain hard currency. After overcoming any number of hurdles with production, distribution, and design, Yugo finally made it to American market. Meanwhile, the US Reagan administration was targeting Yugoslav economy (by promoting “quiet revolution”) as a part of its larger initiative to destabilize and overthrow Eastern European governments and absorb Eastern Europe into Western market economy.³¹

In his book on the *Yugo*, the historian Jason Vuic attempts to explain why this particular car became the most hated vehicle in the U.S. by tending to blame the Yugo’s failure on *Zastava*’s complete inability to understand the ins-and-outs of the “free-market” capitalist society. In an interview for TIME, Vuic stated: “The fact that Yugo came to the USA meant that it was far and away better than many other cars in many other countries” (Weibly 2010). But if we are to understand fully how the concept of the Yugo as a source of revenue and a symbol of national pride was destroyed all of the contributing factors must be taken into consideration.³²

All things considered, *Zastava* fulfilled its main role of motorizing ordinary Yugoslavs who were, in turn, increasingly embracing the “car culture” largely shaped by *Zastava*. Even though some other popular cars were assembled in Slovenia and Bosnia,³³ 90 per cent of all cars came from *Zastava*, while its legendary *Fića* became the symbol the entire Yugoslav socialist era. Between 1955 and 1985 almost a million *Fićas* rolled off the factory’s assembly line. From the beginning of its operations in 1954 until 2003, *Zastava* produced over 4.1 million automobiles of which 710,000 were exported to seventy-four countries (Micić et al. 2013, 171).

³⁰ The restrictions implemented in the 1980s introduced vouchers for the basic necessities. The use of automobiles was first restricted with regard to their registration number according to the so-called “even – odd” system, and then gasoline vouchers were introduced as well.

³¹ “US Policy towards Yugoslavia”, and 1984 “Secret Sensitive” NSDD 133.

³² During the 77 day round-the-clock bombing of Yugoslavia US/NATO specifically targeted civilian infrastructure including industrial facilities such as *Zastava* by using ammunitions containing depleted uranium. The US/NATO set up its largest military base and took control over Kosovo’s population and natural resources including the Trepča mining complex.

³³ e.g. *Renault 4*, *Spachek*, *Dyana*, *NSU*, *VWs Beetle* and *Golf*.

Conclusion

Zastava was one of the largest and most important industrial enterprises in Yugoslavia. However, its development and growth were never ends in themselves. As the engine of Yugoslav economic growth and the model of a successful enterprise of the Yugoslav welfare state, *Zastava* had to fulfill many social obligations and make contributions that went beyond raising the standard of living by providing employment all over Yugoslavia and securing the livelihood of its employees. By 1980s about million people in Yugoslavia were directly or indirectly related to and depended on *Zastava*. *Zastava*'s relatively successful economic performance in the pre-1979 shows that a high level of productivity and innovation was achieved when there was a genuine attempt to introduce self-management in the 1960s. However, continuous changes in the regime of business operations have not created favorable conditions for long-term planning orientation and integration of the Yugoslav economy. With political constraints of market self-management, economic disintegration and weakened managerial command structure after the reforms of 1974, *Zastava*'s productivity, fiscal responsibility and discipline declined. All this raises the question of how *Zastava* would have turned out given a stable and genuinely democratic environment.

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*Zavodi "Crvena zastava": Jugoslovenski samoupravni
socijalizam i izazovi za automobilsku industriju*

Ovaj rad istražuje iskustvo fabrike *Zavodi "Crvena zastava"* u izgradnji jugoslovenske automobilske industrije između 1950. i 1980. godine. *Zastava* je 1954. godine počela proizvodnju automobila na osnovu licence FIAT-a i postala motor za pokretanje Jugoslavije od agrarne u industrijsku, urbanu i motorizovanu zemlju. Međutim, njen sopstveni razvoj ometao je nedostatak stabilnosti jugoslovenskog socijalističkog sistema koji je bio pod stalnim procesima promena i decentralizacije. U ovom radu su ispitane ključne faze razvoja *Zastave* u kontekstu sistema samoupravljanja koji se razvijao u Jugoslaviji, kako bi se omogućilo razmatranje nekih teorijskih pitanja i razmotrili problemi praktične primene samoupravljanja. Cilj je pokazati da, iako je koncept samoupravljanja bio razumljiv u procesu odvajanja Jugoslavije od Sovjetskog bloka i ispoljio pozitivne efekte u praksi, nije se pokazao uspešnim u automobilskoj industriji.

Ključne reči: Zastava automobilska industrija, FIAT, Jugoslavija, društveno vlasništvo, samoupravljanje, transfer tehnologije

*Zavodi "Crvena zastava": L'autogestion socialiste
en Yougoslavie et ses défis pour l'industrie automobile*

La présente étude a pour objectif d'examiner les expériences de l'usine *Zavodi «Crvena zastava»* dans la création de l'industrie automobile yougoslave entre 1950 et 1980. L'usine de *Zastava* a commencé à produire des voitures d'après la licence de FIAT et elle est devenue le propulseur d'un changement d'une Yougoslavie agricole vers un pays industriel et urbain. Cependant son propre développement a été freiné par un manque de stabilité du système socialiste yougoslave, victime perpétuelle des changements et de la décentralisation. Cette étude examine les phases clés du développement de *Zastava* pendant la période d'autogestion qui se développait en Yougoslavie afin d'examiner certaines questions théoriques, ainsi que les problèmes concrets émanant de l'autogestion. Notre objectif est de démontrer que l'autogestion n'a pas eu d'effets positifs sur l'industrie automobile même si en pratique le processus de séparation du bloc soviétique a donné des résultats positifs.

Mots clés: Industrie automobile *Zastava*, FIAT, Yougoslavie, propriété sociale, autogestion, transfert de technologies

Primljeno / Received: 14. 06. 2017.

Prihvaćeno / Accepted: 03. 07. 2017.