

**NATO CONFIDENTIAL**

ORIGINAL: ENGLISH/FRENCH  
14th June, 1974

POLADS(74)12

MEMORANDUM

To: Political Committee

From: Acting Chairman

THE SITUATION IN YUGOSLAVIA

Attached is a revised draft of the Committee's report on the situation in Yugoslavia which will be placed on the Agenda of our meeting on 25th June, 1974.

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THE SITUATION IN YUGOSLAVIA

I. POLITICAL DEVELOPMENTS

1. The constitutional amendments adopted in July 1971 called into question the basic principles which had underpinned Yugoslav society since 1950 and broke up the system of federal centralism. The new system at first seemed capable of putting an end to the disputes which had been flaring up for years between the various republics, particularly when their economic interests were at stake. However, the machinery introduced to permit concerted action did not work as planned. In addition, tendencies towards nationalism, economic individualism and political separatism had welled up, generating an atmosphere of euphoria which was full of risks for the future of the Yugoslav federation. The Party, which as a matter of principle had kept strictly to its rule of trend-setter, was perhaps nearing a point beyond which its position as the fundamental element of the régime could, like Socialism itself, have been endangered. Tito thus had no alternative but to make a radical political change in order to put the Party back into the saddle and allow it to play its essential rôle of maintaining national cohesion when the time came to choose his successor.

2. The letter sent by President Tito and the Secretary of the Executive Bureau on 18th October, 1972 to all the Party Ministers triggered off a campaign to enforce discipline in general and to bring the League to heel in accordance with the principles of "democratic centralism". The changes were greatest within the Party itself. A substantial number of "technocrats", "liberals" or "anarcho-liberals", "nationalists", "petits-bourgeois" and other deviationists were excluded on the grounds that they had taken advantage of self-management or of power and had in some cases engaged in "fractionism" and even in "enemy activities". Marshal Tito was determined that the League should appear, at its 10th Congress at the end of May 1974, as a united political and ideological organization, in the revolutionary vanguard of the working class and of all the Yugoslav peoples and nationalities.

3. The Croat Party leadership was dismissed for nationalism as far back as December 1971. A year later, the Serb and Slovene Parties were decapitated, the former because its top man practised liberalism and tolerated "anarcho-liberalism", the latter because of its penchant for "technocratism". Since then the tide has swept mainly over Vojvodina and the city of Belgrade. Repeated references are made in speeches by Party leaders and in Party documents to "resistance centres" which must be wiped out; these centres are claimed to embody either a "so-called anarchist and destructive left" or a "reactionary right". Penalties ranging from "comradely criticism" to expulsion pure and simple from the Communist League are being inflicted both on individuals and on groups.

4. The purging of the Communist League has been conducted in parallel with an "ideological offensive". This has taken a number of forms but the aim is clear enough, namely, to bring back pure Marxism, and all sectors of public life have been affected; the press, which has been reminded that the journalist's trade is a "political profession", publishing, literature, the cinema and the plastic arts, where non-conformists are reported to have separated aesthetics from ideology. The ideological offensive has been even more determined in the fields of education and teaching: Marxism, driven out of the schools by the pressure of "bourgeois ideology" in recent years, is now making a sweeping come-back. The general tightening up has also had repercussions on relations between Church and State with the Party leaders accusing the former of having, during the period of "nationalism and liberalism", abused its position by interfering in political matters. In this "ideological offensive against deviationist elements", the Communist League has had particular difficulty with the "leftist, anarchist and nihilist elements" in the Belgrade Faculty of Philosophy and with the editorial board of "Praxis", the Marxist philosophical review published in Zagreb. However, while the press is not as free as it was two years ago, its return to conformity is not such that its readership is now boxed in by a carefully prefabricated vision of the world. In addition, the Party has still not been able to dismiss the eight members of the academic staff in the Belgrade Faculty of Philosophy who have the staunch support of their students and of their colleagues in Zagreb and Ljubljana.

5. Judging from certain signs which appeared during the early months of the year, the Yugoslav Authorities may now be fearing that the whole process is getting out of hand and an officially inspired campaign seems to have been launched against the hard-liners, accused of neo-Stalinism. This swing of the pendulum is particularly noticeable in the field of cultural activities where a touch of the brake has eased the oppressive atmosphere which reigned at the end of 1973. It has been followed by warnings from the League leadership to those who "hanker for a return to an all powerful party". Mr. Dolanc, Secretary of the Executive Bureau, speaking on television recently, criticised those who wanted to turn the Communist League into an administrative overlord of society at the expense of self-management.

## II. ECONOMIC SITUATION

6. Economic stability is essential to internal cohesion and to the country's standing internationally. The stabilizing measures which have been applied since 1971 have had certain positive effects on foreign trade: the export and import situation was more favourable and invisible earnings in the form

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of tourism and the repatriation of funds by immigrant workers, reached record levels; at the end of 1973 currency reserves totalled some \$1,700 million. In contrast, the policy of austerity which was designed to keep down incomes and expenditure has been unable to put a stop to galloping and chronic inflation. In January 1973, the Government nonetheless introduced a new series of stabilizing measures providing either for a wage freeze or for a 10% cut in pay packets for two million workers; new machinery for price control by agreement between producers and consumers; cuts in budgetary expenditure and a drive to encourage "individual contributions" to a stabilization fund. The struggle against the imbalances in the economy is however still being undermined by structural factors such as liquidity shortages in enterprises, the shortage of skilled labour, over-investment and the inadequate adaptation of supply to demand.

7. Official statistics for the first four months of 1974 disclose significant improvements in some key economic indicators: industrial production is up 10.2 percent in real terms, reflecting resurgency in investment activity due to improved enterprise liquidity, strong export, and good domestic consumer demand. Industrial production has not grown at such a fast pace since 1969. GNP at constant prices is rising at slightly better than the six percent average of the past decade, while productivity is up almost five percent. After a year of stagnation, real wages have resumed their upward progress - by an impressive six percent - thus probably assuring continued adequate consumer demand. Relatively high rates of production and productivity are having a beneficial effect on the price situation. Although many wage and price controls have been removed or eased, and the price of imported oil and basic materials have climbed steeply, the cost of living increases are so far being held slightly below the rate of last year, which was 19 percent.

8. Due to the energy/raw material situation, the trade deficit this year is widening, and it appears probable that Yugoslavia's comfortable balance of payments (current account) surplus of past two years will change into a moderate deficit. Nevertheless, the best current estimates are that the number of Yugoslavs employed abroad will not decrease meaningfully, and that hard currency receipts from this source and from tourism - both so important for the Yugoslav economy - will increase by about 10 percent over 1973. Yugoslavia has ample foreign exchange reserves and an improved international credit standing, adequate to meet moderate balance of payments deficits, at least over the short term, without affecting development plans.

9. Yugoslavia still faces the same development problems with which it has struggled for many years. There is evidence, however, of continued vigorous efforts to master these problems, including the maximum development of economic activities in which the country enjoys a relative advantage. Similarly, the energy/raw material import problem is being tackled through a strong campaign to increase Yugoslav exports and services to Middle Eastern oil producers and other lesser-developed countries, and through development of the country's own considerable energy and material resources.

III. THE POLITICAL SCENE IN 1974

10. The strengthening of the Party's rôle as leader is, together with the extension of self-management, the main feature of the new Yugoslav constitution (the fourth since 1946) promulgated on 21st February. It is primarily designed to give the country the means of preserving its stability once Marshal Tito leaves the political scene: the Head of State means to leave his heirs with a strong Party which will be capable of maintaining national unity and of combatting the centrifugal tendencies making themselves felt in the country. Thus, the authority of the central government and of the Yugoslav Communist League has been appreciably increased. A more compact collegial presidency (each republic and autonomous province will be represented by one delegate only, the President of the Communist League being co-opted ex-officio) will wield the powers at present held by Tito. The Federal Parliament, which now consists of two chambers, will comprise "delegates" from the grass roots and therefore, under Party control. However, while all the necessary arrangements have been made for the post-Tito period, this must not be taken to mean that the President intends to relinquish any of his powers while he is alive: pursuant to a clause in the new Constitution, the Assembly has just proclaimed the Head of State President for "an indefinite period". Furthermore, Marshal Tito was elected Life President of the Party at the 10th Congress which was held from 27th to 31st May.

11. Meanwhile, the decentralization of the economy is continuing; the new Constitution will give even greater impetus to self-management despite the ever-increasing gap between the theoretical model of Socialist self-management and the realities of its implementation. Emphasis is placed on the advancement of the working class and the 1974 Constitution introduces a considerable number of reforms designed to give the self-management worker a leading rôle both in the enterprise and in the legislative bodies. Among the more significant innovations are the final jettisoning of the principle of "deputation" in favour of "delegation".

12. These new constitutional arrangements are no doubt just one stage in the life of the régime and continuous adjustments will need to be made: the very existence of Yugoslavia rests on

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a fragile balance between a supranational federation and a rather loose-knit confederation. While the republics and provinces have been given a wide measure of autonomy in the hope of de-fusing the nationality issues, these republics and provinces have also been given the political responsibility for preserving the Yugoslav federation by being associated at federal echelon with common decision-making, particularly in economic and financial matters. Decentralization is matched, in addition, by the heavy concentration of power at the top, the members of the Federal Praesidium being simultaneously influential members of the Party. This extremely complex system has still to be put to the test.

13. The Tenth Congress of the Communist League which, as it were, rehabilitated the Party and its leading rôle in a society which was more concerned with economic success, seems to have been the culminating point in the cleaning-up operations of the past two years rather than the harbinger of new decisions. The Congress which took place under the banners of self-management and non-alignment endorsed all the reforms introduced in recent months. "Let no one nourish the fallacious hope that Yugoslavia can be any different" said the Head of State in concluding his progress report. "It is in its true colours, independent, Socialist and non-aligned that Yugoslavia can best serve the interests of peace and progress in the world." The new statutes adopted on this occasion placed greater emphasis than at any time since 1952 on "democratic centralism", as well as the strengthening of Party discipline but Yugoslav society in 1974, a consumer society with its windows wide to the West is no longer, as far as Party action is concerned, the relatively malleable, economically under-developed and politically and culturally isolated society of the 50s.

14. In a Yugoslavia which is finely balanced and in which the structures are precarious, the army, together with the Party, provides the only unifying force. Organization-wise, it is remarkably homogeneous (strongly centralized command, 85% of senior officers recruited from the worker and peasant classes, high-level of training and a crash weapons modernization programme); its political options - Marxism matched by deep-seated anti-Sovietism - also make for considerable cohesion. It may be added that the population is very much attached to its army which provided the nucleus of the resistance to Nazi Germany; its links with the population have been strengthened by the introduction of a "people's defence organization" which keeps the whole population in a permanent state of readiness. So far, the army has proved extremely discreet and has never intervened in political affairs. In the unanimous opinion of observers, however, it would undoubtedly go into action if the country were threatened by disintegration, were to go through a grave constitutional crisis or strayed from Socialism. The statutes adopted by the Tenth Congress lent substance to the growing influence of the armed forces in the Party: in the new Central Committee, the Army has as many representatives as the provincial organizations of the League (about 12% of total membership, which is unprecedented) and the method of selection - which will now be independent - of these representatives will give it the same measure of political autonomy.

15. The Yugoslav defence industry currently produces 85% of the armaments used by the national forces; Yugoslavia would thus be self-sufficient in light conventional weaponry and plans to move gradually into the production of certain types of technically more advanced equipment. Nonetheless, it must still import the more sophisticated items which are precisely those which are decisive in the event of war. Unable as it is to obtain hard currencies in sufficient quantities, Yugoslavia has no option but to turn, mainly, to the Soviet Union.

#### IV. FOREIGN POLICY

16. Yugoslavia has continued to be on good terms with all major powers, including China. With their neighbours however they are displaying their usual acute sensitivity about nationality and frontier issues, as the continuing controversy with Bulgaria about Macedonians and the revival of the dispute with Italy over Trieste indicate. At least part of the origins of the attention paid to these problems should be found in the field of internal policy.

17. The relations with the USSR and other East European countries have shown a continuing improvement, which was highlighted by Tito's visit to Kiev last November and exchanges of several visits with East European countries. Yugoslav policy towards Moscow continues however to be guided by a certain amount of uneasiness, although Tito insisted in his mid-April speech that Yugoslavia "need not fear the USSR".

18. Yugoslav official spokesmen and media have temporarily avoided the extreme statements and criticism of US-policy which have complicated bilateral relations. Yugoslav officials have stressed their interest in avoiding irritants in bilateral relations and continuing a "dialogue". Although attacks on the US and NATO resumed at the height of the campaign against Italy over Trieste, they subsided following Tito's mid-April speech in Sarajevo.

19. Yugoslavia continued to be closely associated with the non-aligned movement. Tito has reportedly been deeply concerned about the lack of unity in the movement. Various travels by leading Yugoslav officials, as well as by Tito himself, to non-aligned and developing countries in the last months have had as primary objectives a boosting of Yugoslavia's slipping rôle in the leadership of the non-aligned movement and salvaging non-aligned unity and solidarity in the wake of the energy crisis. The rôle of Yugoslavia, and of the non-aligned movement in general, in the Middle East crisis has however been negligible.

20. Yugoslavia's foreign policy on a whole continues to be guided by the desire to retain its independence towards East and West. The difficulties in the non-aligned movement will have convinced its leaders to a certain extent that Yugoslavia remains in the first place a European power, which has to find its place within a European framework.

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21. The relations with its neighbours, as well as with the major powers, are to a large extent linked with conflicting tendencies within the country itself. Internal difficulties within Yugoslavia will give opportunities for other countries, in particular the Soviet Union, to increase their influence, even if it is not to be expected that the Soviet Union will attempt any direct intervention. On the other hand conflicts with its neighbours might be used by the Yugoslav leaders to unite the country and to distract the attention from internal difficulties, and so to stimulate national cohesion.

CONCLUSIONS

22. Yugoslav polemics following the resurgence of the Trieste question may be partly due to internal considerations. They may also have been intended as a demonstration, perhaps to other countries, of the importance the Yugoslavs attach to their "territorial integrity". Primarily they are a reflection of Tito's desire to leave a clean slate for his successors when he departs the scene.

23. Relations with the Soviet Union have continued to show the steady improvement commenced in 1971 but the Yugoslavs will remain wary of Soviet intentions. For their part, the Soviets are likely to continue their relatively cautious policy towards Yugoslavia, hoping, no doubt, that opportunities for increasing influence will arise in the future. Tito, as well as his prospective successors, will however seek to preserve Yugoslavia's independence, and will wish, for both economic and political reasons, to maintain good relations with both the Soviet Union and the West.