

Mitko Calovski

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

AKC 20 March 1989

I enclose a copy of a letter and enclosures I have received from Mr. Mitko Calovski, Ambassador of the Socialist Federal Republic of Yugoslavia.

I should be grateful for advice and a draft reply, to reach me by Monday 3 April please.

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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Mitko Čalovski
Ambassador of the Socialist Federal
Republic of Yugoslavia

London, 17 March 1989
5. Lexham Gardens, W8

Dear Mr. Powell,

I take the freedom to enclose to you the list of Mr. Marković's cabinet, elected on 16 March, as well as the statement he made on that occasion. I thought you may wish to have a look at the documents, especially at Mr. Marković's statement which, as a reform programme, should deregulate an integral market (goods, capital, labour, know-how) and thus, coupled with tight monetary policies, curb the inflation, stabilize the Yugoslav economy, create incentives for entrepreneurship and make it more viable for international cooperation, including very much so with the UK and the EC.

You may wish, hopefully, to inform accordingly the Prime Minister, especially since Mr. Marković's programme does not seem to fall very much outside whatever the Prime Minister, on her own right, had been suggesting to Mr. Djuranović last April.

May I mention here that my Federal Secretary for Foreign Affairs Mr. Budimir Lončar will be coming to London between 20 and 23 April, which will be an opportunity for his very thorough annual regular talks with the Secretary of State Sir Geoffrey Howe. However, I wonder whether the Prime Minister may not also wish to see Mr. Lončar and hear, first hand, about the current developments in Yugoslavia and, perhaps, to comment on activities both in Europe and in the context of non-aligned movement which is preparing to have its Ninth Summit in Belgrade at the beginning of September 1989 under the chairmanship of Yugoslavia.

Mr. C.D. Powell
Private Secretary
to the Prime Minister
10 Downing Street
London

Yours sincerely
Mitko Čalovski

NEW FEDERAL EXECUTIVE COUNCIL

The two Chambers of the Federal Assembly, upon the proposal of the Prime Minister Mr. Ante Marković elected at its session on 16 March 1989 the Vice-Presidents and the members of the Federal Executive Council.

The Vice-Presidents are Mr. Aleksandar Mitrović and Mr. Živko Pregl.

1. Mr. A. Mitrović - Born at Osladić, near Valjevo, SR Serbia, in 1933; formerly Vice-President of the Presidency of the SR of Serbia.

2. Mr. Ž. Pregl - Born in 1947, SR Slovenia; economist; formerly Executive Secretary of the Presidency of the Central Committee of the League of Communists of the SR of Slovenia.

3. The Federal Secretary for Foreign Affairs is Mr. Budimir Lončar.

Mr. B. Lončar - Born at the island of Ugljan, SR Croatia, in 1925; University degree; formerly also Federal Secretary for Foreign Affairs.

4. The Federal Secretary for National Defence is Col-Gen. Veljko Kadijević.

Col-Gen. V. Kadijević - Born at Glavna near Imotski, SR Croatia, in 1925; Yugoslav; University degree; formerly also Federal Secretary for National Defence.

5. The Federal Secretary for Internal Affairs is Mr. Petar Gračanin.

Mr. P. Gračanin - Born at Svetozarevo, SR Serbia, in 1923; graduated from the Military Academy; formerly President of the Presidency of the SR of Serbia.

6. The Federal Secretary for Finance is Mr. Branko Zekan.

Mr. B. Zekan - Born in 1933, SR Croatia; economist; formerly Director General of CROATIA Insurance Company.

7. The Federal Secretary for Foreign Economic Relations is Mr. Franc Horvat.

Mr. F. Horvat - Born in 1941, SR Slovenia; economist; formerly President of the Federal Committee for Tourism.

8. The Federal Secretary for Foreign Trade is Mr. Nazmi Mustafa.

Mr. N. Mustafa - Born at Donja Dubnica near Podujevo, in 1941; Albanian; economist (MA); formerly President of the Executive Council of the SAP of Kosovo.

9. The Federal Secretary for Development is Mr. Božo Marendić.

Mr. B. Marendić - Born in 1939, SR Croatia; economist (MA); formerly Director General of the Social Planning Administration of the SR of Croatia.

10. The Federal Secretary for Energy and Industry is Mr. Stevan Santo.

Mr. S. Santo - Born at Subotica, SAP Vojvodina, in 1946; Hungarian; economist; formerly Director General of SEVER work organization.

11. The Federal Secretary for Transport and Communications is Mr. Jože Slokar.

Mr. J. Slokar - Born in 1934, SR Slovenia; graduated engineer; formerly Director of LJUBLJANA Railway Transport Enterprise.

12. The Federal Secretary for Agriculture is Dr Stevo Mirjanić.

Dr S. Mirjanić - Born at Bosanska Gradiška, SR Bosnia and Herzegovina, in 1945; Serb; agricultural sciences (PhD); formerly member of the parity part of the Federal Executive Council.

13. The Federal Secretary for Labour, Health, Veterans' Affairs and Social Policy is Mr. Radiša Gačić.

Mr. R. Gačić - Born at Bajina Bašta, SR Serbia, in 1938; Serb; graduated from the Faculty of Law.

14. The Federal Secretary for Legislation and Administration is Mr. Vlado Kambovski.

Mr. V. Kambovski - Born at Bitola, SR Macedonia, in 1948; graduated from the Faculty of Law; formerly Vice President of the Executive Council of the SR of Macedonia.

The members of the parity part of the Federal Executive Council (Ministers without portfolio) are Mr. Dževad Mujezinović, Mr. Branimir Pajković and Mr. Nikola Gasovski.

15. Mr. Dž. Mujezinović - Born at Orašac, near Bosanski Petrovac, SR Bosnia and Herzegovina, in 1934; Muslim; graduated from the School of Economics and Faculty of Philosophy (German language and literature); formerly at the Federal Executive Council without portfolio.

16. Mr. B. Pajković - Born in Priština SAP Kosovo, in 1949; Montenegrin; economist.

17. Mr. N. Gasovski - Born at Prilep, SR Macedonia, in 1933; formerly Director General of ZLETOVO lead and zinc mines at Titov Veles.

The former Secretary General of the Federal Executive Council Mr. Zoran Mišković was re-elected to the same post.



EMBASSY OF THE SOCIALIST FEDERAL
REPUBLIC OF YUGOSLAVIA

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17 March 1989

PRESS RELEASE

STATEMENT MADE BY THE PRIME MINISTER OF THE SFR OF YUGOSLAVIA,
MR ANTE MARKOVIĆ, ON THE OCCASION OF THE ELECTION OF THE NEW
FEDERAL EXECUTIVE COUNCIL (FEDERAL CABINET) AT THE FEDERAL ASSEMBLY
BELGRADE, 16 MARCH 1989

i am of the opinion that all our measures must be based on the awareness that the destiny and future of our society, its crisis and development cannot be addressed without raising efficiency, primarily economic efficiency, and without strengthening political democracy.

we must seek solutions in reforms of the society and system, in a commitment to an integral market, the independence of economic entities and their right to economic and development decision - making and their responsibility for such decisions, to development involving an opening towards the world and integration in its processes, through which we shall come closer to the humanitarian, cultural, civilizational and other achievements of the modern world.

in line with these reform options, it is necessary already now to embark on the process of the transformation of the state, and within it, of the reorganization of the composition of the federal executive council.

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in order to make for the operation of the integral market we must create the prerequisites for its functioning. namely, we should consider systemic arrangements, the infrastructure of the system and its institutions, as well as the organizational, functional and other mechanisms, which are prerequisites for the operation of such a system. in view of the fact that we are still employing a system of quite a different kind, we must make profound changes which call not only for appropriate solutions but also take time to be introduced. through systemic arrangements it is necessary to make possible the formation of all factors on an integral market, not only in the area of commodities but also of capital and labour, for without such a comprehensive solution we shall evidently not attain the real results the market makes possible, particularly with regard to increasing efficiency.

in this context, economic entities should be enabled to assume responsibility and to exercise the right to independent business and development decisions, which is a prerequisite for building a more efficient and rational system of economic operation.

first of all, i have in mind deregulation i. e. the revoking of those laws and regulations which suppress the role of the market and economic entities - i.e. economic organizations. it is necessary to deregulate all those areas which do not necessarily have to be state regulated and have to do with the market of goods, capital and labour. specifically it means that legislation referring to those areas should be reexamined and amended in line with the accepted arrangements.

another task is to amend systemic laws, but which do not fully correspond not only to the letter but also to the spirit of the constitutional amendments such as: the law on enterprises, the law on financial operations, the accounting law and the law on banks and other financial organizations.

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it will then be necessary to draw up new legislation, where care must be taken not to treat more restrictively than the constitution all those issues related to original rights, which must be regulated statutorily under the constitution.

it is also necessary to reexamine all pieces of subsidiary legislation of which there is a multitude, which should be revised in keeping with the general deregulation.

deregulation should be understood as a permanent process, by no means as a one-time effort and least of all as a campaign. it must be constantly addressed by all factors, starting from the enterprises, with respect to their self-management relations and internal organization, up to the legislative activities of the federation. it is not only an issue of reducing the number of regulations governing the operation of enterprises at the market, and of generally simplifying the process of administrative regulation and communication. it is also necessary to reexamine a number of institutions operating pursuant to such regulations today and defacto representing centres of power, deciding on behalf of factors which, under the new system, should be entitled to making their own decisions.

the market, as an achievement of the development of civilization is an instrument of efficiency and of accelerated development for which no adequate substitute has been found to date. it requires independence and responsibility on the part of economic entities and increases motivation.

all our activities must be geared towards a gradual opening to and integration in the world market and the introduction of world criteria in our market, not only of goods,

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the conditions they will be operating under and take all measures to fit into the new system of economic operation in an efficient and rational manner.

for this to become possible the earliest possible establishment of a capital, i. e. financial market, is necessary which cannot be done until we separate the state from the market financial function. that is why we must separate the monetary function as a part of the state function from the credit function, which must be in the purview of commercial banks. the discharge of the credit function, which implies responsibility for resource investments as well as the right to form the prices of these resources in the market, is not possible unless there are institutions and mechanism necessary for such a market. therefore, it is necessary to establish a banking system as envisaged by the constitution as soon as possible. it is necessary to establish a market of securities and resolve the problem of their issue and circulation as well as work out an incentive scheme for all forms of savings. without a market of capital there can be no increase in the efficiency of the use of resources in general and their market valuation, nor is it possible to activate the holding of households in production to a greater extent.

as regards the commodity market, the course should be toward further liberalisation of prices and imports as a prerequisite for establishing a competitive market. naturally, the influence of the world market through imports of goods shall be determined by our import possibilities which, in their turn, depend on our capacity to achieve a sufficient foreign exchange inflow.

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that means that imports and all forms of linkage with the world economy, supported by all instruments of development and current economic policy, constitute a premise for reaching a higher level of development followed by the establishment of a stable equilibrium in the national current account and balance of payments. a number of measures are possible in order to create a sufficient supply of foreign exchange from all sources, i. e. through exports of goods and services, stimulation of purchases of foreign exchange from citizens, as well as with the help of additional fun-

ding from abroad, which would promote our links with the world market as a whole on a lasting basis. Liberalisation should first of all, cover those imports which serve as inputs for exports, then, on a longer - term basis - imports of those products which serve to protect the living standard and contribute to greater competition, especially in those areas where monopolies are created.

as the process of our integration in the world market would gain momentum, increasing our foreign exchange inflow, the scope would broaden for liberalizing imports which would make it possible to create a market of commodities of our own on the basis of the combined influence of developments on the home and world markets. in this respect, the institutional framework for the commodities market, without which the latter cannot function, is primarily trade, although it has been neglected in our country and has played the part of distribution for years. such as it is, impoverished - with scarce resources and poor organisation and methods of work and even personnel - it is unable today to assume the role which trade has on modern organised markets. that is true of our foreign trade and even more of our internal trade. trade must not just transfer goods passively between producers and consumers.

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in order to accelerate the establishment of the markets of capital and commodities, it is necessary to provide as soon as possible for the establishment of mixed banking and financial organisations as well as joint trade organisations with foreign partners as an additional way to speed up the modernisation of institutions which would be able to assume full market responsibility, independently and with due regard for their own operation and work methods.

the result should be a strong motivation of man. unless we provide for his labour and its results to be properly valued on market and thus an opportunity and the right for him to determine his own personal income, we will not be able to promote efficiency. motivation, however, cannot exist without differentiation. therefore, we must provide for considerable differences based on work and performance, knowledge and capacity to capitalise on that knowledge and work on the market.

the labour market should be introduced and strengthened in our system and practice as soon as possible with the primary objective of eliminating the possibilities of further state influence, which means that administrative regulation and state interference in the distribution of income and personal incomes should be abandoned. that does not mean that it is not necessary to provide for adequate interdependence in the distribution of income, but this should be left to other factors, primarily to the enterprises themselves, to their self-management organs, internal relations, their own responsibility for their own development, without doubting that they themselves will be able to distinguish between what is necessary for current operations and what is necessary for long-term development. all this implies an income policy,

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with fiscal and tax policies also playing a very important role. in the next stage certain norms will have to be established by the trade unions and the enterprises.

it will also be necessary to enable competition between employed and unemployed workers, i.e. make it impossible to monopolize a post, even when one does not meet the requirements calling for the efficient use of social resources.

in this context, the constitution has made provisions, albeit minimal, for appropriate changes in labour legislation and practice in enterprises.

also, the labour market must stimulate both the regional and structural mobility of workers, which both contribute to the better valorization of labour resources as a whole and mitigate the consequences of regional development disparities.

in our system we must stop treating social services as consumption, but rather as a factor of development. in keeping with the constitutional amendments, organizations and self-management communities of interest must transform themselves and rationalize their operations so as to meet the contemporary needs of economic and social development. wherever possible, it is necessary to integrate social services and productive activities in a joint struggle for a new quality of life, economic operation and development. the improvement of the material standing and the attainment of an equitable socio-economic position of employed workers should, in addition to the regular sources, be ensured even more by establishing direct relations and by selling products and services at the market. in these activities, too, the operation of economic laws should be respected and all labour factors

and results should be evaluated, providing thereby motivation for adapting to the reform of society in general.

therefore, this whole approach is aimed at transforming the present market devoid of competition, almost erratic, extremely irregular, into a market with positive developmental and other effects - into a market not to be feared of. We must be afraid of the market we have now and which has almost put us in a situation without a way out.

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the almost one decade long economic crisis in Yugoslavia has aggravated economic, social and political problems to a degree which directly jeopardizes the very foundations of the socio - economic and political system of the country.

although that period has not been fully homogeneous, the global economic performance in that period is markedly unsuccessful in economic terms.

the stagnation of the social product and accelerating inflation have strongly undermined the foundations of the national economy and substantially reduced its reproductive capacity, with declining competitiveness and export capacity. in spite of the policy of extensive employment, the number of unemployed workers rose from 1980 to 1988 by 43 % . coupled with the increase of unemployment, the real level of average personal incomes dropped by some 25 o/o, this inevitably resulting in strong social tensions and declining motivation to increase labour productivity and efficient resource use. the decreased efficiency is to a considerable degree a consequence of the investment policy in the previous period which

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was not based on market criteria thus resulting, on the one hand, in the absence of production and financial effects. on the other hand, the substantial commitments resulting from these investments used a significant part of the capital formation, disabling investments which were necessary for the modernization and technological renovation of the economy.

the inadequate development and current economic policies, the latter being insufficiently export oriented, the predominantly administrative impact on foreign economic relations - resulted in a low export level and foreign exchange inflow, which made it impossible to service foreign debts, in spite of the considerable reduction of import. we were, therefore, compelled to reschedule our debts twice during that period, which additionally increased the unsettled claims in the country.

according to the basic macro - economic development indicators, unfortunately the economic situation in the country deteriorated significantly in 1988 as compared to 1987. namely, a real fall of the social product, industrial production, work productivity, investments, personal incomes and standard of living was registered, while retail prices and unemployment grew. such developments give rise for serious concern, since according to these tendencies the situation continues to deteriorate in 1989 as well. the achievement of certain results in foreign economic relations does not change the general picture of the economic situation.

in 1988 the annual rate of inflation, as it is known, was 199 o/o. the current inflation at the outset of 1989 was considerably higher. in the period from june 1988 to end january 1989, the average monthly growth of retail prices reached 15.4 o/o, which on a yearly basis represents an inflation rate of 458 o/o. however, in february the growth of prices accelerated additionally.

nally, implying that we are faced with an annual inflation rate which is close to 1000 o/o, if the trend continues.

in 1988 the rate of inflation was closely followed by monetary growth. Last year the money supply increased by more than three times. developments at the beginning of 1989 indicate that the characteristics of the monetary-credit aggregate trends in 1988 have not altered in the least. the expansive course of the credit - monetary policy is continuing and without a turning point in this field it is impossible to slow down the growth of prices.

unfortunately, the causes of our inflation are manifold. it is a result of our system and manner in which the system is implemented; it is naturally, cost pushed, but also demand pulled, as well as the result of the inadequate and inefficient communication with the world, it is predominantly structural, meaning long term.

evidently, there is no single policy which can curb inflation. only an integral set of policies and measures, involving both changes in the system and changes in the economic structure, and, therefore, containing both developmental and current economic policies can make up a powerful strategy in the offensive against inflation.

bearing all this in mind, the basic task of the current economic policy is to check the stagnant processes in the economy, to revive production and, at the same time, to create institutional and material - financial preconditions for its restructuring in accordance with modern technological and market requirements. the complexity of the thus established objectives and tasks of the economic policy requires a compound and differentiated

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approach to their realization. on the one hand, priority must be given to measures and activities which will, without accelerating inflation, enable the productive activation of available factors of production, especially of the market viable and profitable economic agents, channelling them to those fields in which they can achieve considerable results in a short period of time.

this implies that efforts will be exerted to stimulate economic agents, impartially and to a maximum degree, through current economic policy measures, to search for their own solutions to business and development problems they are faced with.

the market valuation of all the factors of production and effects of their use on the unified yugoslav market will be the basic feature of the current economic policy. in connection with that, the dinar exchange rate policy and interest rate policy will be in accordance with market criteria, determined through market mechanisms. only in conditions of established real market values is it possible to discern economic efficiency from inefficiency, profitability from unprofitability, work from idleness and on that basis open processes of modernizing and restructuring economic agents and the overall economy.

considering that the difficulties in, and resistance to, the implementation of this policy to date were to a considerable degree the results of long-standing accumulated disbalances in the financial system of the country which ultimately generate inflation, parallel with a policy of market valuation of the factors of production, it is necessary to eliminate and clear up existing unsettled claims.

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within this framework, it is necessary to analyze the situation and identify problems linked to the economically inefficient and fictitious part of the assets of the economy as well as uncollectable claims. It is also necessary to review the realised exchange rate differentials on account of the household foreign exchange saving deposits of the national bank of Yugoslavia, as well as part of the exchange rate differentials of foreign credits converted into dinars by the national bank of Yugoslavia. Along these lines, it is necessary to identify the real sources of funds for covering them, i.e. determine what should be written off or transformed. At the same time, it is necessary to reduce the financial disbalance in foreign business operations among which of particular significance is the transformation of part of the foreign debt into direct investment of foreign capital in the Yugoslav economy through the equalization of the credit balance with specific countries. Through these measures and activities domestic and foreign debts would be decreased as well as the pressure exerted on the liquid funds of the economy and banks, limiting thus the effects of one of the causes of inflation.

in conditions of pursuing real dinar exchange rate and real positive interest rate policies, it is necessary to increase significantly the liberalization of prices and import, as well as to reduce customs and import duties, especially on imports for export production including the import of consumer goods. In addition, using all forms of anti-monopolistic policy, it is necessary to decrease the negative effects of the monopoly on the market, eliminate the dual price system within certain reproduction entities as well as reexamine the decisions on the joint elements in the formation of prices.

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within the framework of the overall economic policy, modern monetary and fiscal policies should hold a particularly important place, since they should contribute, through their interaction, both to the stabilization of commodity - money relations on the market as well as to direct activities on reversing the slow down of economic activity and its gradual revival. taking into consideration the intensity of the existing inflationary tendencies, the monetary policy should act as a powerful and active anti - inflationary policy instrument. therefore, its basic characteristic should be restrictiveness.

the restrictiveness of monetary policy should be reflected in two elements. one is dynamic and implies not only the necessary lagging of the annual growth of global monetary aggregates behind the inflation, but also such a development of global monetary aggregates within a year which would not anticipate inflation and which would not be tailored to it. the second element of monetary and credit flows in areas where they have been directly inflation generating up till now. this particularly relates to the use of primary money issue for covering losses, financing surpluses in bilateral payments arrangements and for deficit financing of a part of the federal budget expenditures. with the realization of these elements the credit - monetary policy would not have to be restrictive when it comes to financing market generated demand, profitable and export - oriented projects, successful innovative economy.

the overall money issue should be taken in its totality, both the official as well as the autonomous ones.

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it is necessary to separate monetary from credit policy. the first one is under the authority of the national bank of yugoslavia and the system of national banks, and the other under the authority of business banks.

parallel to such monetary policy, it is also necessary to pursue a restrictive policy of public sector income and expenditures, proceeding from the assessment that the present level of fiscal and parafiscal burden of the economy is too high in relation to its real material and financial possibilities. it is necessary to rationalize organization and operation of social services and administration at all levels, as well as to reduce certain rights established by law, by stimulating direct relations and increasing participation of users of services.

the current economic policy for 1989 is burdened by foreign and domestic debts, imbalance between the budget and extra budget balances which all have strong destabilizing effects. in this context, the federation has a large volume of deficit financing which is uncovered by real sources. budget and extra budgetary balances for 1989 were elaborated on the basis of the assumption that primarily includes the unrealistic assessment of increases in price and foreign exchange rate.

the new federal executive council will, as a priority task, have to deal with them at once, proceeding from the principle that at the federal level all balances are planned in the budget.

with a view to increasing the stabilizing effects of such monetary and fiscal policies, it is necessary to pursue an active policy of income and personal incomes distribution, conceived so as to enable the activation of motivating factors for increasing production and efficiency in the use of resources, this policy, at the same time, must not have inflationary effect. personal incomes should grow depending on the market value of the results of labour and increase of production, rather than in proportion to the rise in living expenses in all situations and circumstances with the over growing egalitarianism.

in order to transform thus relatively increased savings in the economy into investments, which will in a relatively short time yield both indirect (via demand for equipment) as well as direct (via new capacities) impetus for stopping the decline and initiating the growth of the production, it is indispensable to change the structure of the use of savings and increase the efficiency of investments. in this connection, two basic sets of measures should be undertaken. the first of them relates to essential reduction in the state channelling of capital formation (the so-called compulsory pooling of social reproduction funds) and giving a free hand over these funds to the economy in the spheres of reproduction and investment consumptions. the second measure concerns the tightening of market criteria of investment policy and their more consistent application to all investments in the country.

for the comprehensive achievement of this task, in addition to the above mentioned measures, of particular importance are economic policy measures and activities on the whole in the spheres of strategy and tactics of economic relations with foreign countries. in this respect, the relations with the

European community, policy of attracting foreign capital and foreign exchange resources of Yugoslav citizens, policy of joint ventures, cooperation and gaining access to world market etc. should become an integral part of a unified and consistent foreign economic relations policy, the effects of which, in terms of creating conditions for continued growth and exports as the basic impetus to production and the inflow of capital and technology, will, in a large measure, determine the possibilities of resolving the problem of stagflation over the long term.

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When considering development it is necessary to interlink the systemic measures, measures of the current economic and developmental policies within the overall concept of socio-economic development. Therefore, both the current and development policies and economic system solution must take care to create such prerequisites which will enable optimum growth and development arrangements and their intensification, particularly with a view to resolving social problems and eliminating the causes of inflation.

The development policy should make possible, support and follow these processes. In other words, we need such a concept and strategy of development which will significantly increase the efficiency of the economy and, relying primarily on exports, increase income and foreign exchange inflow, and, thereby, enable new productive employment.

we are faced with two basic problems in the sphere of development. the first one is the lagging of the technological level of the existing structure behind the development of world technology, which in the last few years has been intensive, even in those sectors which are relatively developed in our country, up to the most modern ones with which we have failed to establish correct links. secondly, we have even greater problems with the underdeveloped economic structure; here we are even more behind the developed countries than as regards the development of technology itself. it is clear that there can be no significant increase in efficiency of the overall economy and society, increase of exports and supply of goods with the structure we have today, without setting up a new one. this structure will be more flexible, more market viable and, thereby, capable of communicating with the end consumer and will more quickly react to technological and other changes on the world market.

such development process based on structural changes and adjustment will also give rise to social problems which, in my opinion, can not be resolved predominantly and exclusively in the sphere of social policy, but, above all, within development policy, not disregarding in this either social welfare or social security of citizens.

in developing new structures the emphasis must be on the establishment of new small enterprises. the changed structure, with small enterprises as a basis, increases the efficiency of the overall economy, its adjustment to the world economy structure increases export capabilities and supply

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of commodities and domestic market, can be quickly achieved and is neither capital nor energy intensive, but is the only one capable of absorbing labour force surplus which will occur with the strengthening of the market and economic coercion.

the constitutional solutions create greater scope for such development. they enable us to eliminate without any delay all the limitations which made it impossible up to date to mobilize resources of citizens and resources from abroad. we must create an atmosphere whereby these commitments of ours will be seen as stable, namely that it is not a daily policy but rather one designed for the long-term and instilling confidence in all potential investors in the creation of new values. the constitution guarantees all forms of ownership - social, private, cooperative and mixed. with this objective in mind we should, by means of economic policy measures, motivate the legalisation of resources, particularly the foreign exchange resources of citizens which nowadays circulate on the so-called 'grey market', and their emergence in regular market channels. next, we should encourage all our citizens to invest their resources into development, particularly, our citizens working abroad.

in the framework of such a structural policy, it will be in the interest of the socially owned enterprises to speed up the establishment of small enterprises, to which they should channel their own assets and make available a part of their production and technological capacities; they would also encourage their own workers to set up such enterprises as partial owners in which they would retain the right to management and acquire property rights.

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funds earmarked for development, including external capital, should primarily be used for joint ventures. furthermore, instead of relying on commercial borrowing for making a better use of the existing capacities and enhancing their more active role, long - term resources should be found both for technology and for working capital . that calls for the issue of securities, which will act as an incentive to yugoslav citizens and foreign investors.

we shall have to identify several major development programmes which will constitute a new quality in our development and lead to a more accelerated transformation of the country's economic structure. at the same time, that will give an impetus to greater opening towards the world and the introduction of market elements into the agreements based economy. in this context, i am particularly referring to several major projects, in the fields of tourism, agriculture as well as fields requiring the most up-to-date technology, such as electronics, informatics, pharmaceutical industry, as well as infrastructure, notably in the area of transport.

all programmes, infrastructure included, must be verified by the market. the more they are oriented towards the world market the more they should be implemented through foreign investments and through projects designed on commercial basis without the backing of state guarantees, regardless of whether or not the state shall simphon its own funds into their implementation.

on the basis of the new development concept, establishment of the market and the new system, as well as the current economic policy focused on motivation, we must talk to our creditors in the world, primarily to the international monetary fund so that they would support such a policy of ours, since the enhancement of our abilities will enable us not only to repay our debts but also to develop a normal communication with the world capital market, which is in their interest as well. we are also about to have discussions with other institutions of the international banking system, as well as our creditors and major trading partners in the world.

we must harmonize the policy of regional development with this concept, bearing in mind, of course, the specific features of individual regions.

in addition to encouraging a more accelerated development of the underdeveloped republics and the socialist autonomous province of kosovo, the regional policy must also deal with all the other vital regional issues such as territorial management, urbanization, population policy, migration trends, etc.

in line with the characteristics and the objectives of the new economic system, we must consider the transformation of the federation fund for financing the more accelerated development of the insufficiently developed republics and provinces, with a view to turning it into a specific development and financial institution.

finding a way out of the crisis and the opening of the development process depend primarily on the ability of our

society to open up the process and to ensure a consistent functioning of the integral market as well as the autonomy and the right of economic entities to decide on current and developmental issues and to bear the responsibility for these decisions accordingly.

the substance of those changes lies in releasing the huge potential of the self-management socialist society and individual initiative, motivating people to behave rationally and efficiently and to change programmes, organizational set ups, methods of work, etc, primarily in their own economic interest which will result in a considerable increase in income and enhancement of all the other positive effects.

it is the task of the state to ensure as soon as possible the unrestrictive exercise of constitutional rights which are a normative prerequisite of the system. it means that rights and competences should be transferred from state institutions to the self-management agents and the market—from commune to federation levels. therefore, we must primarily focus on the deregulation, and the new legislation must be in function of a true operationalization of the constitutional provisions and their respective application. this does not mean that we do not need a state in the economy. on the contrary, we must develop a modern state suited to a market economy and the independence of enterprises, i.e. a state which will safeguard that autonomy and its economic function, especially with respect to strengthening the role of economic policy and also include indicative planning. those functions, particularly those which are fiscal, tax and solidarity related must be clearly defined just as the legal role of the state in the framework of the social system as a whole. on the one hand, we must deprive the state of some competences it had so far and, on the other, we must strengthen those competences which at present

it performs poorly or does not perform at all. furthermore, we must effect the distribution of competences vertically and enable the autonomy in decision - making at different levels.

accordingly, i thought that the federal executive council should have fewer members, but that the efficiency of its work should be enhanced: the amended constitution makes that possible as it does not insist on the kind of parity which existed to date.

thus, instead of the principle of parity which made it compulsory to have a large federal executive council, in terms of the number of its members, conditions will be created for making up a smaller team whose professional and political qualities would constitute a greater guarantee for the more efficient, operational and responsible functioning of the federal executive council and the federal administrative agencies.

the elimination of the principle of unanimity in adopting by-laws is particularly important for the performance of the federal executive council. here, we are bearing in mind the nature of the executive regulations, namely the fact that social and material relations cannot be governed by enactments adopted by the federal executive council but rather by laws and other regulations adopted by the assembly of the sfr of yugoslavia. the proposed solutions inevitably imply the dissolution of the inter-republican committees and create preconditions for greater independence, efficiency and responsibility of the federal executive council and the federal administrative agencies.

the changes in the organizational set up and competences of the federal administration constitute an important step towards the reform of the state administration. from the very outset the newly established federal administrative agencies should concentrate on fulfilling their basic function- the implementation of federal laws and other regulations

and monitoring the state of affairs in their respective areas.

in order to ensure that the federal executive council and federal administrative agencies work, first of all, as state organs with precisely defined function and tasks within the rights and responsibilities of the federation, changes will be carried out in the structure of the federal administration so that its functions would primarily be performed by federal secretariats, as executive administrative agencies. in this way, normative and organizational preconditions have been created for the federal administrative agencies - the federal secretariats - to discharge their tasks and duties efficiently and independently, within the framework provided by the s f r y constitution and federal legislation, and for the federal secretaries, members of the federal executive council, heading these federal agencies, to be fully responsible for their work and for the work of the agencies which they head, as well as for the state of affairs in the field for which that agency was established.

the intention of the new organization of the federal agencies was to organize and concentrate work within individual federal secretariats in a more rational way, i.e. to eliminate parallelism in their work. the underlying idea was to concentrate related areas within certain federal secretariats and to bring together all the key components and aspects of these areas, with emphasis being laid on those tasks and activities required by the reform of the economy and the society as a whole.

it is for these reasons that the federal executive council will continue working on the preparation on the new law on the basic principles of the system of the state administration and on the federal executive council and, accordingly, the new law on the organization and province of work of the federal administrative agencies and federal organizations.

in this context, we should discuss ways of modernizing the administration and introducing elements of modern means and methods of work, bringing in new people at the same time and having a considerably smaller administrative apparatus, but with better, more adequate remuneration.

v

on several occasions we have assessed the international political conditions in which we must work so i do not intend to expound on this in detail. however, i should like to note that it is primarily positive processes that are taking place in the world today and that there are grounds to believe that they could be long-term ones, although they are not necessarily balanced and rectilinear. there still remain quite a few divisions and conflicts which jeopardize security and stability based on equal rights and the respect of independence of countries and peoples.

such world developments, still contradictory, bring us to the question of the framework and priorities of our foreign policy.

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firstly, it seems that at this point in time priority should be given to working on raising yugoslavia's already low credibility in the world. for too long we have been in economic and political crisis in this country, preoccupied with ourselves, our own dramatization and mutual conflicts. the world is watching this with concern, including the many friends we have made through the consistent and independent policy we pursued with tito.

secondly, we must exert every effort to create conditions favourable for the pursuit of our steadfast orientation towards market transformation and modernization in all fields of life and work. we have already displayed this to the world and the first responses have been positive ones. the comprehensiveness of the reform, its rhythm, consistency and resoluteness in its implementation remain the key issue for the success of our foreign policy as well.

our vision is one of a world of interdependence and cooperation, growing integration and more equal rights; we must prepare ourselves for that and pursue such a foreign policy consistently.

reform and economic development, economy in the broadest and most specific sense of the world and the realization of our overall economic possibilities for joint development through modern forms, of cooperation with foreign partners, must become one of the cornerstones of the activity of our diplomatic service and its future orientation. divorcing the state from economy must not be interpreted as leaving the economy solely to its own resources, to make

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its way in the world without any help. the diplomatic service must assist it most directly, no less than the diplomatic services of the developed, market - oriented countries do in terms of promoting their own economic interests.

well equipped and with a higher degree of stability, we must establish our own attitude towards european integration processes. the part of carrying out this priority is a gradual one and it depends on internal and external factors.

it is certain that the establishment of a yugoslav market and the liberalization of relation with the world, especially with neighbouring integrations, are closely linked and that we must work on this perseveringly and systematically.

for a longer period of time yugoslavia will maintain its position towards integrations in europe: that it is a european, mediterranean, non - aligned and developing country. however, we shall have to conceive and affirm our own positive attitude towards this, moving reciprocally and symmetrically, depending upon our own development and our capacities to adjust. we shall have to intensify our dialogue with the european community, which has already been established, and which should be materialized through all - round industrial, transport, financial, ecological, scientific and other forms of cooperation.

then comes the set of priorities which stem from our relations with our neighbours. the general political atmosphere in our neighbourhood is a sign of the affirmation of our efforts aimed at good - neighbourly cooperation, whose foundation we laid long ago. we must remain on this path and

be effective in the settlement of problems which do exist, or we should at least keep them under control within the bounds of bilateral cooperation. various forms of regional cooperation can have a favourable influence in this context, vis-a-vis the entirety of our neighbourhood, bearing in mind the positive effects of cooperation which have, for example, been achieved within the alpe - adria work community, and through the beginnings of inter - balkan cooperation. therefore, we shall make every effort to strenghten new constellations of relations in the balkan peninsula and in its immediate vicinity so that they would continue to correspond to stable european and world processes.

the choice of yugoslavia as host of the next summit conference of the non - aligned countries and her role as chairman of the movement over the next three years should considerably contribute to enhancing our reputation and dynamizing our relations with non - aligned and developing countries, as well as with all leading political factors in the world. a constant orientantion towards the modernization of the movement can help us achieve all our other priorities and have the movement and yugoslavia remain a mobile and influential part of world politics. we are firmly committed to making the Summit a success and to strengthening the position and role of the policy and movement of non - alignment in world developments.

our non - aligned position also enhances our opportunities for stronger ties with europe. instead of exhausting ourselves in discussions on the possible model of our inclusion in europe we should, already at this point, through concrete actions, gradually take part and establish functional links with it.

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i should also like to indicate that reforms in eastern european countries and in the comecon are gradually changing the conditions, contents and nature of our economic ties with these countries, too. it is necessary to find new possibilities for promoting mutually beneficial cooperation, which are being opened or heralded by perestroika. the positive rapprochement processes between the comecon and the e c can also constitute a new opportunity for us, but new competition in both markets as well. this shows the necessity of a faster restructuring of our economy, i.e. offsetting strict market criteria for development and exports.

on this occasion i shall not dwell on the subject of our relations with the big powers, which are favourable and stable, nor those with the developing and non - aligned countries. our relations and the tenets underlying them were established a long time ago and constitute part of tito's orientation. we shall continue to follow those paths as our lasting priorities and orientation.

on the basis of predictable developments in external and internal factors at the time of the implementation of this programme we can conclude that the concept of total national defence and social self - protection will represent a success and fully respond to all types of possible threats to the security of the country. its primary function has to remain deterrence against aggression. however, for deterrence to maintain credibility, the defence capacity of the country and the combat readiness of the armed forces have to correspond at all times to the existence of actual or potential threats to its security. this is something the federal executive council must constantly bear in mind and, accordingly, practically define and discharge its duties in this regard.

one should be aware of the fact that the social, and in particular the economic, crisis weakens the defence and the security of the economy. this logically entails the need to reevaluate some essential factors of defence and security which ought to result in a new quality of society's defence capacity and armed forces combat readiness. in this connection, we shall exert efforts for the further elaboration of the total national defence and social self - protection concept.

we shall propose measures from within the purview of the federal executive council so that the armed for -

ces of the sfry might develop further as a uniform and harmonious whole , bearing in mind the fact that the yugoslav people's army as its most mobile, striking component has a particularly prominent role and responsibility, primarily in terms of deterrence, of the efficient countering of the new doctrines of potential aggressors and in terms of the protection of the constitutionally stipulated order. it is hence necessary for the yugoslav people's army, apart from a high level of training and moral and political unity, also to be adequately technically equipped. in the further building of the army, we shall strive to follow these priority directions- the reversal of the past unfavourable trends in its technical modernization, the strengthening of its overall combat capacity through the optimal coordination of technical modernization and the reduction of the number of army cadres concurrently with the further raising of their quality. it goes without saying that all this is directly dependent on the available means so that the federal executive council will take every possible measure to ensure an adequate financing of the yugoslav people's army on a stable and secure basis in accordance with the sfry constitution.

we shall consistently and rationally from the economic standpoint put into practice tito's well known stance that the yugoslav armed forces should for the most part be equipped with armaments and military equipment manufactured and developed in the country. through their influence on overall technical and technological progress, scientific research work and the manufacture of armaments and military equipment should in the future also remain one of the important levers of overall industrial and economic development.

the strengthening of the overall defence capacity of the country is directly dependent on the success of the reforms, in which, naturally, the members of the yugoslav people's army are interested as well. in my talks with the military i was not only assured of their support to this programme but also of the firm resolve of the yugoslav people's army to contribute to the maximum, through concrete measures and within its possibilities, to its practical implementation.

v i i

the latest developments have demonstrated once again that the situation in kosovo represents one of the most difficult political, moral and socio-economic problems of yugoslav society. the causes and the consequences of the counter-revolution of albanian nationalists and separatists in kosovo make it considerably more difficult to successfully deal with the other problems entailed by the crisis in the country, address further development, the preservation of the constitutional order of yugoslavia,, its territorial integrity and its democratic socialist orientation. the creation of conditions for the longer-term stabilization of the situation in kosovo is a priority. at this moment, it is essential consistently to implement the decisions taken, to eliminate the causes of the counter-revolution, to remove the consequences of accumulated distrust among nationalities, and create conditions for a secure life and a common future upon the already adopted tenets of brotherhood and unity and in furtherance of the other achievements of the socialist revolution.

as has been emphasized on a number of occasions so far, the adoption of the constitutional amendments to the constitutions of the s r of serbia and of the socialist autonomous provinces will create the necessary conditions for the successful implementation of this policy and the more efficient operation of the entire political system.

so far a number of political decisions have been taken , conclusions made and a yugoslav programme adopted of measures and activities to halt the migrations of serbs and montenegrins from kosovo and for the faster return of those who have left it of late. a number of regular and special state measures have been taken to that end.

it is imperative to restore work, law and order in the shortest time possible as well as the operation of all the institutions of the system in the province so as to bring serenity and peace back to all homes.

certain parts of the yugoslav programme will have to be reexamined and updated. to that end, the federal executive council will establish a higher degree of cooperation and coordination with the republics and provinces, especially with the bodies of the socialist republic of serbia and the socialist autonomous province kosovo. especially important are those tasks which are related to socio-economic development, meaning that we will have to continue ensuring the fastest development of s a p kosovo relative to the rest of the country.

to that end, the federal executive council will employ measures of economic policy, in keeping with the constitutional amendments and the reforms of the economic system and the policy of structural change, in order to create conditions for enhancing the process of pooling labour and resources and various forms of joint ventures as well as promoting overall investment policy based on the use of own resources, for the development of profitable production, faster employment and further changes in the social composition of the population.

numerous other tasks are also ahead of us, primarily the extension of adequate staffing assistance, the strengthening of public institutions, especially of self-management and state organs, of inspection services, prosecution offices, courts and other bodies to deal with the many cases of the violation of constitutionality and legality, of personal integrity and property of the working people and of social property, the strengthening of informative and educational activities, especially with a view to the prevention of counter-revolutionary developments and to the exercise of the full freedom and equality of the nations and nationalities in Kosovo based on the objective need to live together and be integrated faster into the socialist self-management community of equal nations and nationalities of our country.

viii.

the time in which this federal executive council is assuming office, is, in addition to economic problems, also encumbered with grave socio-economic problems. divisions on various grounds are deepening and antagonisms are mounting. the political and security situation in the country has reached such a point that special measures have been introduced in a part of the country. this is unfavourably reflected upon both the economic situation and the international position of Yugoslavia. in such a situation, specially in case it should escalate further, the chances for a substantive implementation of reforms would lessen as would the opportunities for creative work on the part of the new federal executive council.

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the new relationship between society, the state and politics is one that we have to build together. this is a complex and lengthy process of the democratization of society in the pursuit of a new modern socialist system. in the struggle for the new, the cohesion of progressive forces of our society will be enhanced but so will resistance to these changes, primarily on the part of those who have had some privileges. i foresee problems in the period of the market adjustment of the economy - as this process will liberate certain numbers of the labour force, whereas new development will perhaps not be so intensive and vigorous as to absorb this surplus and thereby buffer social tensions. in fact, these social tension may serve as the basis for all conservative and dogmatic and ultraleft wing forces to rally in a struggle against the new system and its protagonists. this is something that we have to reckon with and, accordingly, we have to accelerate the new development, in particular the new structures.

statically observed, our situation seems hopeless, but dynamically observed, there are ways out.

they lie precisely in the changes envisaged in the reform of socialism which commands enormous power, in the huge potential of all motivated individuals, in the freedom of our enterprises to make their own decisions as they see fit to enhance their business performance and their growth.

at the end of the fourth decade of the development of our self-management socialism, we can and must create for our workers and all the working people such conditions of economic operation and such conditions of life and work which will enable every man, every worker, every individual to take hold

of his own fate. to that effect, the welfare of every individual should depend on that individual himself, on his working and creative capacity and on his own interests in the work and life he has chosen for himself. all these may and must be realistic pretensions in undertaking to reform socialism today.

we need a new morale to be espoused by all the forces of our society, a morale of the victors.

the vast forces of this society should be harnessed to spearhead the processes of reform so that the project of their unfolding might become realistic and within reach. if we know what we want and if we manage to unite all the progressive forces of our society on that basis, that of yugoslav cohesion, then there should be no doubt that this self-managing socialism will genuinely prevail.