The *Broom* of Titoism

By Steve H. Hanke

Josip Broz Tito

How developing nations are compensating for weak labor markets.

Yugoslav strongman Josip Broz Tito died on May 4, 1980, and his funeral was witnessed by more politicians and state delegations than any other in history. Even though Marshall Tito might be dead, his ideas are alive and well.

In 1948, Tito made his mark by breaking ranks with Stalin. Moscow was quick to label Tito's form of communism revisionism. After all, the hallmark of Tito's foreign policy was the Non-Aligned Movement, which counted Tito's Yugoslavia (along with Nasser's Egypt and Nehru's India) as a founding member, and at home, Yugoslavia's unique form of decentralized "market socialism" featured worker-managed firms.

The worker-managed firm idea attracted much interest and many camp followers around the world. In Yugoslavia, however, the system failed to produce enough jobs to fully employ Yugoslavs because the socialist worker-managers viewed new additions to the labor force as "profit" poachers who would cut

Steve H. Hanke is a Professor and Co-Director of the Institute for Applied Economics and the Study of Business Enterprise at the Johns Hopkins University and a Contributing Editor of TIE. *He served as the personal economic adviser to the Vice President of the Socialist Federal Republic of Yugoslavia 1990–91.*

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com

into their share of the "profit" pie. In consequence, Yugoslavia faced a chronic surplus labor problem.

To solve the problem and mask the flaws in the worker-managed system, Tito came up with a simple, but ingenious, economic strategy: he opened the Yugoslav borders—at least by communist standards—and exported surplus labor. This unpublicized element of Titoism worked like a charm. At its peak in the early 1970s, there were over a million Yugoslavs, about 11 percent of the labor force, working in Western Europe. The hard-money remittances (primarily German marks) that those Yugoslavs sent home amounted to as much as 30 percent of Yugoslavia's exports.

Like Yugoslavia, Mexico's economy is stuck in a variety of statist ruts. According to the World Bank's *Doing Business 2007* report, Mexico's labor market does not function well. Of the 175 countries covered by the report, Mexico ranks 108th in terms of the difficulties faced by businesses in hiring, employing, and firing workers. It's not surprising that Mexico is on a slow growth path and that it can't produce enough jobs.

Rather than modernize the economy, Mexico's politicos have used Titoism's safety valve: when incapable of fostering productive jobs, export the labor force. Last year, almost 30 percent of Mexico's labor force was working in the United States and these workers sent home an estimated $23 billion in remittances. That was over one-third of the total wage earnings in the formal sector of the Mexican economy and almost 10 percent of Mexico's exports.

In Turkey, the story is similar to Mexico's. In 2005, there were 3.7 million Turkish citizens living abroad, and about 1.34 million were employed. This means that 5.4 percent of the total active Turkish labor force was working abroad in 2005. Those numbers reflect a dysfunctional Turkish labor market. According to the *Doing Business 2007* report, Turkey's labor market ranks 146th. The burdensome laws and regulations affecting Turkey's labor market harm both workers and businesses by making it difficult to hire new workers and costly to fire them. As a result, the labor market is rigid and unable to respond to competitive pressures and to create an adequate number of jobs. So again, Titoism comes in handy.

Adding to the toxic brew in Turkey, punishingly high taxes on wages also contribute to the dysfunction of Turkey's labor market. The Organization for Economic Cooperation and Development in Paris has calculated the "tax wedge" for OECD member countries. The tax wedge is the share of employee earnings taken by the government. It is equal to the difference between labor costs to the employer and the net take-home pay of the employee, including any cash benefits received from government welfare programs. For a family with two children and one working parent, Turkey's tax wedge was larger, at 42.7 percent, than that of any other OECD country in 2005, and fifteen percentage points higher than the OECD average wedge of 27.7 percent. If Turkey ratcheted its tax burden on wages down to the same level as Ireland's (the latest tiger economy), it would have to reduce taxes on wages by 75 percent.

Rather than modernize the economy, Mexico's politicos have used Titoism's safety valve: when incapable of fostering productive jobs, export the labor force.

Dysfunctional labor markets, which uproot populations and dump them in alien lands and cultures, have been a boon for politicians on all sides during their acrimonious electoral debates. The hurling of veiled invectives about hypothetical events exacerbates the worst in human nature and reinforces demagoguery. Whatever their differences, both countries' governments have been grossly unfair to their labor forces, with Turkey tending toward neglect, Mexico actively using the broom of Titoism, and both destabilizing neighboring countries, provoking frictions and even unnecessary conflicts. ◆