

**Mimo DRASKOVIC, Milica DELIBASIC,  
and Veselin DRASKOVIC**

# **MODELING OF ALTERNATIVE INSTITUTIONS**



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and Veselin DRASKOVIC**

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# PREFACE

This monograph critically indicates the evident, mass, and negative (brake) processes and tendencies, which dominantly determine the long-term crisis in most transition countries. In phenomenological terms, it is about *systemic* and *institutional* failure, which have been rooted in the most common social subsystems: culture, politics, and knowledge. A society that allows the formation and strengthening of alternative institutions for a long-term dominance is condemned to general development delay, reproduction of the crisis, distortion, and reduction of value criteria.

It is indisputable that institutional failure (fiasco, deficit) began in a period of transition from one institutional monism (dirigisme) into another (neoliberalism). Therefore, it is natural that all our critics, in addition to other braking factors, are oriented towards the ideology and practice of quasi-neoliberalism. The entire period of post-socialist transition was marked by the dominance of nomenclature (narrow, privileged) interests over national (mass and social) interests. It has been presented incompetently, media, orchestrated, and apologetically as a Messianic Grail, although it is clearly a new form of *dogma*, embodied in the sophisticated, improvisational and individual totalitarianism.

This manuscript does not tend to show the absolute truth. Although, the authors hope that it will help to discover at least some segments of *truth* and find some skillfully blurred boundaries that make it impossible to understand and differentiate the apparent from real, the rhetorical from practical. One of the main anti-development causes is certainly the abuse of real institutions by alternative institutions (from the shadow), which are based on various forms of opportunistic behavior and social pathology. This has motivated us to define the title of this monograph.

The monograph has been published in a period unfavorable for books in general, especially unfavorable for science. Today, few people read books, publications have small circulation, and modern readers use new media formats. Therefore, this is an opportunity to point to the more frequent remarks of many journalists and self-proclaimed analysts, who in the (un)believable ignorance arrogantly and chorally declare that the “*academic community is silent*”! Without any desire to respond to them in the media, we leave them to live in delusion, and we claim that writing is, yet, an alternative and equal way of expression. Since they obviously do not read professional and scientific literature, we have no hope that they will ever learn the truth about the activities of the academic community.

We are grateful for the trust of our distinguished reviewers, university professors *Bagrat Yerznkyan* from Moscow, *Radislav Jovovic* from Podgorica, and *Miomir Jaksic* from Belgrade. We also thank the co-authors *Sanja Bauk*, *Radislav Jovovic*, *Nebojsa Jovovic*, *Evgeny Popov* and *Kesutis Peleckis* on their contribution in co-writing two chapters with us.

Authors



# BASICS AND SIGNIFICANCE OF CONSENSUS THEORY

Mimo DRASKOVIC

*This article will try to explain the substance of consensus theory, its characteristics and significance for economic theory, since the French conventionalists formulated it as an alternative not only to neoclassical theory of rationality and relevant mythological individualism but also to institutional determinism. Author of this article a) examines specific interpretation of norms of behaviour of representatives of the theory, through the prism of realistic existence of numerous forms of coordination and conventions and b) tries to fill in the incomplete matrix of institutional subsystems with his own logical categories.*

The institutional analysis issue is at the focus of economic science since the late 1980s till the present day. It began with a critique of “old” institutionalism, and then a neoinstitutional economy developed as the original theory, which, due to the same methodology, in a certain way represents a specific (partial) extension of neoclassical theory. A new French institutionalism emerged on the critique of neoinstitutional economic theory, but also neoclassical one-sided and abstract treatment of rationality and appropriate methodological individualism. Despite some common views, all these directions are essentially different. New French institutionalism has formulated a *theory of agreement* (convention, consensus)<sup>1</sup>, whose subject matter is intertwined with several social sciences: economics, sociology, moral philosophy, and political philosophy.

This is not coincidental, since the leading representatives of this theory argue that only complex and integral research of all the above sciences can solve problems which can not be deciphered even by neoinstitutional economic theory, and especially not by neoclassical theory. This *synthetic approach* implies a critique of neoclassical methodological individualism, with the starting point that economic, political, and social spheres are closely interconnected and conditioned.

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<sup>1</sup> The above theory was first presented in the book „Les economies de la grandeur“ by L. Boltansky and L. Thévenot (Paris, 1987).

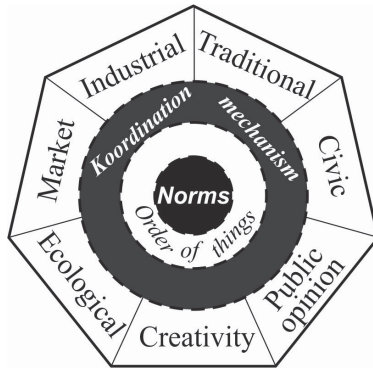


Figure 1. The concept of the “seven worlds” (institutional subsystems)

Adapted from: Olejnik 1997, s. 65; Teveno 1997, ss. 69-72.

### Many institutional subsystems and ways of coordination

Until the emergence of a neoinstitutional economic theory, orientation to norms of behavior was seen as a contradiction to the principles of market rationality, in accordance with the well-known Max Weber's types of rationality. Herbert A. Simon's *concept of bounded (incomplete) rationality* is based on a conception of rationality, stemming from one type of chosen decision-making procedures that M. Weber had perceived long time ago: affective, traditional, *value-rational*, and *target-rational*. In that sense, Simon has elaborated *six alternative models* of human behavior, which enable the formulation of *conditionally possible rational economic behavior*. In the first four models, the cognitive abilities of people are taken as limited. It is about the following models: *a model of satisfaction*, according to which a person does not make an optimal choice but stops at the first variant that meets the preset criteria; *a reliability model*, according to which due to the complexity of the problem being solved and error probability, a person prefers the usual decisions instead of looking for the optimal choice; *a robot model*, according to which a person acts according to a predetermined program; *a training model*, according to which a person learns to make optimum choice on his/hers and someone else's mistakes, *a cost model*, in which the costs of searching for information are very high, whereby a person does not compare all alternatives but evaluate the costs arising from the search for new alternatives and the expected utility of the new alternative; and *a model of evolution*, according to which the participation of individuals behaving rationally appears as a limitation, providing the highest gain.

French institutionalists have defined the *norms of behavior* as the starting point for the elaboration of their theory: In this sense, L. Thévenot and L. Boltanski observe the market institute as a specific form of social connections between atomized individuals. In order to overcome this contradiction between rational behavior and



the requirement to adhere to certain norms in everyday life, they have formulated an original and fairly consistent concept of norms which cease to be an external limitation of rational activity, since individuals use them solely for the better and more complete realization of their own interests and easier coordination of economic activities. In addition, norms are a way of understanding the effect of the counter-agents in all situations in which direct information exchange is impossible. In this way, norms become a) a significant *mechanism* of harmonizing actions of individuals with the environment, and therefore with the actions of others, and b) an assumption (and not by any means an obstacle) in the realization of a rational choice.

The considered theory is characterized by the category of "*interpretative rationality*", which is interpreted as "*the ability to preserve the harmonizing character of acting through the development of the orientation* (behavior – a note by M.D.), *which is understandable to all transaction participants*" (Livet and Thévenot, according to Olejnik, 1997, p. 62). In the opinion of mentioned authors, these *guidelines* are nothing more than *behavioral norms*. This definition is rather abstract and even unclear at first sight, because it is given in the framework of a complete and quite complex theory, which is not purely economic, but also sociological. Therefore, this term should be further explained. Interpretative rationality is considered to involve the ability of an individual to form the correct expectations of another subject's actions, or to properly interpret his/her intentions and plans. At the same time, this individual is expected to meet the reciprocal requirement: to enable others to understand (*interpret*) their intentions and actions (Livet and Thévenot, 1994, p. 157).

The existence of *interpretative rationality* in the market is significant because without it the subjects of exchange would be unable to find an optimal solution in situations such as the "prisoner's dilemma", which is usually related to production and distribution of public goods. The assumptions of *interpretative rationality* are believed to be the existence of focal points and conventions. They are, in addition to the norm, connective tissue, or terms without which it is difficult to explain the conception of *interpretative rationality*. A norm is the basic regulator of human behavior, it imposes how a person should behave in a particular situation. Focal point is a behavioral variant spontaneously chosen by all interested persons (which come from a homogeneous social group and/or culture - for example, a commonly accepted place of encounter). The convention is a generally accepted (and expected) behavioral variant in this or that situation, respected by all and known to all (e.g. silence during the afternoon rest) - according to: Olejnik, 2007, p. 23. After all the above explanations, it should be added that the agreement theory proposes that a norm should be viewed as a prerequisite for mutual *interpretation* of the participant's intentions and preferences in the market. Although a norm is not an absolute determinant of the behavior of market entities, it serves to reduce uncertainty and achieve rationally defined goals to the greatest extent.

In order to acquire the necessary scientific consistency, comprehensibility, and applicability of this theory, Thévenot and Boltanski (1991, pp. 203-257) propose an additional "*concept of the worlds*" (key institutional and real subsystems of eco-

conomic reality – a note by M.D.), which are directly related to economic theory. There are the seven *institutional subsystems* (worlds) that have their own and specific procedures and mechanisms of coordination, their own order of things, and their own norms (requirements for human behavior).

**Table 1. Incomplete matrix of institutional worlds**

Subsystem name	Coordination principle	Order of things	Dominant behavior
Market	Market transactions	Set of goods	Rationality
Industrial	Standardization	Set of standardized products	Funcrionality, Harmonization
Traditional	Personification of connections and tradition	-	-
Civil	Subordination of private interests to the general	-	-
Public opinion	Based on the most famous and most attractive events	-	-
Creativity	-	-	-
Ecological	Harmonization with natural cycles	-	protection of the environment

Source: Adapted from Lafaye and Thévenot, 1993.

Obviously, the matrix of institutional worlds is incomplete and quite heterogeneous, and therefore criteria for the subdivision of subsystems (worlds) are disputable. We did not manage to find an adequate answer to the second “remark”. But the question of imperfection becomes clear after reading Thévenot’s article “Many ways of coordination: equilibrium and rationality in a complex world” (1997, pp. 69-84), in which he practically analyzes the first two subsystems (market and civil) in order to explain specific phenomena of proposed theories, such as “critical situations”, “market agreement”, “real (conceived) actions” and “critical uncertainty”. He writes extremely pragmatically about other “worlds” to indicate the complexity of conditions and, consequently, the unjustified simplification (modeling) of economic reality and its reduction to perfect competition in which a general equilibrium is achievable. Clearly, this is an original theoretical conception that seeks to point out the complexity of economic behavior in the contemporary conditions of exponentially rising changes by analyzing the complex relationships of various “worlds” that actually exist and act in economic reality. However, it is possible to notice the proposed synergy of institutional subsystems, which maintains a dynamic balance of their relations and their compromise harmonization, necessary to neutralize the pos-

sible expansion of individual subsystems at the expense of others. In order to better understand the basic idea of French conventionalists-institutionalists, we will try to “fill in” the empty fields of the matrix below (Table 2), accepting the risk of possible error.

Table 2. **Supplemented matrix of institutional worlds**  
(author’s supplements are italicized)

<i>Subsystem name</i>	<i>Coordination principle</i>	<i>Order of things</i>	<i>Dominant behavior</i>
Market	Market transactions	Set of goods <i>and services</i>	Rationality
Industrial	Standardization	Set of standardized products	Functionality, harmonization
Traditional	Personification of connections and tradition	<i>Set of reputations, trust and habits</i>	<i>Respect for elders and local obligations</i>
Civil	Subordination of private interests to the general	<i>Collective awareness of obligations</i>	<i>Respect for collective obligations</i>
Public opinion	Based on the most famous and most attractive events	<i>Set of media influences</i>	<i>Following</i>
Creativity	<i>Inspiration</i>	<i>Set of innovations</i>	<i>Creative scientific research</i>
Ecological	Harmonization with natural cycles	<i>Natural balance</i>	Environment protection

In the literature we have noted a very interesting extended interpretation of global institutional matrix, by which Russian economist Olejnik tries to better explain all the complexity and relational connection between the considered “worlds” in economic reality (Table 3). The above three tables indicate the exceptional complexity of economic reality and its environment, that is, complex conditions in which individuals make their economic decisions. All these institutional systems are at the same time significant impact factors on the concrete economic behavior of individuals, since each of them has its own norms and mechanisms of behavior, principles of coordination, types of agreements, order of things, dominant behavior, objective world, information sources, and time dimension (orientation). By observing these factors it becomes clear that the processes of market exchange are very different from the hypothetical model of full competition, which uses neoclassical theory. It also implies the conclusion that this is not about the market imperfection *per se*, but about the characteristics of a complex economic reality in which all the above-mentioned institutional “worlds” operate.

**Table 3. Extended interpretation of institutional worlds**

<i>Type of agreement</i>	<i>The basic behavioral norm</i>	<i>Objective world</i>	<i>Information source</i>	<i>Time vector</i>	<i>Example of activity sphere</i>
Market	Maximizing individual utility	Goods and money	Prices	Orientation to the present	Classical market
Industrial	Ensuring continuity of production	Tehnological equipment	Standards	Planning: jobs are the projection of the future in the present	Military-industrial complex
Traditional	Ensuring the reproduction of traditions; principle of eldership	Elders	Customs, tradition	Jobs are projections of the past	Family
Civil	Subordination of individual interests to collective in accordance with Pareto optimum	Social goods	Low	Orientation to the present	Political sphere
Public opinion	Gaining familiarity, attracting social attention	Objects of prestige	News	Orientation to the present	Means of mass information
Creativity	Achieving the original result	Inventions	Sudden knowledge, understanding something	Discrete time	Creative activity
Ecological	Ensuring harmony with nature, subordinating human activities to ecological requirements	Natural objects	Information about the situation in the environment	Cyclicity of time: natural cycles	Protection of the natural environment

Source: Olejnik, 2007, p. 51.

## Reasonable vs rational action

Thévenot in his article actually proposes a new approach to the analysis of two central concepts of economic science, as he says - rationality and balance. The starting point of his approach is the fact pointed out by many scientists – that economic activities are carried out in conditions that are very different from the abstract theoretical model of perfect competition, presumed by neoclassical theory. Thus, Thévenot proposes the theory of rational (proved) action as the most acceptable for explaining a multitude of coordination mechanisms. In that sense, he (1997, p. 69) lists two basic and starting hypotheses: *“The first is to recognize the existence of many important causes that lie at the heart of motivation, as well as many ways of coordination.”* This hypothesis implies that rationality is only one of the motivational factors of market exchange. Therefore, for labeling of these actions is used the term *reasonable*, not rational.

The second hypothesis relates to the role of exchange objects, which are parallelly involved in the process. *“I assume that the reasonableness of action and, consequently, the possibility of their coordination, is related their attitude towards objects, characterized by one or another form of coordination (e.g. economic goods - for market coordination)”* (Ibid.) In this second hypothesis, the author points to the fact that a material world also participates in activity coordination, with the recommendation that it should be supervised in so-called *critical situations*, when it is possible to use only different ways of coordination, and not just one as *“naturally given and objective.”* The said possibility, according to Thévenot, requires the transition to strategic behavior, in which particular importance is given to the assumptions about counteragent behavior and intentions. Obviously, the neoclassical theory of general equilibrium is not sufficient for the evaluation of strategic behavior, but requires other various aspects: social, organizational, behavioral, etc.

In order to explain the essence of critical situations, the author appeals to a well-known example of neoinstitutionalist O. Williamson, who in the case of blood donor only considers two motives (modes) of behavior: solidarity and market (through which the donor is naive). Criticizing this approach, Thévenot proposes a matrix of civic behavior (achieving collective solidarity) and market behavior (achieving market approval), but between two persons: by pairing a donor (who is active) and an interpreter (who is a neutral researcher or a person who is watching donor's behavior from the side), who can also occupy two positions as a donor: civil and market. The above reasoning can be represented by the following matrix:

		DONOR	
motivation ↓		civil	market
INTERPRETOR	civil	solidarity	opportunism
	market	naivety	reality

As Thévenot explained, diagonally set cells correspond to natural situations, while the shaded cells represent the so-called *critical situations*. This example illustrates the difference between Williamson's institutional approach (vertical cells in the first column), and the theory of agreement. Relationship between the various institutional subsystems (worlds) of reality Thévenot qualifies as critical: what is important in one world is secondary in the other world. A collision between various worlds will likely lead to a crisis that can be avoided, in his opinion, by seeking compromise, by overcoming critical charges between different worlds. A compromise essentially differs from a private arrangement dominated by mutual concessions: this is about actions that are conditioned by strong constraints, oriented to the search for reality and deliberate action in order to establish a general balance among the observed worlds, which are quite variable.

Searching and finding a compromise in a long perspective contributes to the construction of a new “world” (Ibid., p. 79), whereby no form of argumentation has an universal character, as it contradicts other forms, whose analysis allows to explain the nature of critical situations. Each forms of coordination represents a constitutional agreement, revealing its character only in the process of conflict with another form of coordination.

### **Economics of conventions - a decade later**

This year, in the textbook *Institutional Economics*, Olenik's editorial office has published Loran Thévenot's subtitle “Values, Coordination and Rationality: The Economy of Conventions or the Time of Reunification in the Economic, Social and Political Sciences” (2007, pp. 76-112). At first glance, there is an ambition that the former theory of conventions should be called the economics of conventions. According to (or: similarly to) economics of neoinstitutionalism, there is a specific theoretical imperialism, which is exclusively methodologically oriented (without detailed instrumentalization, operationalization, economic analysis), in the considered case not only economically but in economic-social-political sense. At least methodologically it indirectly pretends to universality, as can be concluded from the very title. After all, this theory studies the choice, and the original economic motives, and the complex economic reality, so that in terms of subject-scientific economic integrity, it lacks almost nothing.

Furthermore, the processes and phenomena of economic behavior, which take place in a complex economic reality (pluralistic world) under multidisciplinary influences, are being scientifically generalized, while providing concrete facts and proofs. All this suggests that this is a serious theoretical conception that seeks to overcome not only the theoretical and methodological limitations of neoclassical theory and non-institutional economic theory in terms of rational economic behavior, but also the conflicts between their own theoretical and methodological constraints (ab-

straction, relativity, etc.), but also the extremely complex economic reality which it explains. In addition, it fully understands the task of economic theory, which is supposed to explore and reveal the most general, fundamental principles of economic activity in its close interdependence and connection with social, political, ideological, institutional, cultural, and other processes, with particular emphasis on rationality aspect, that is, the motivation of economic activities. However, multidisciplinary and synthesized knowledge is used to explain economic reality.

By thesis on the "reunification of economic, political and social sciences", given in the title, it tries to overcome, neutralize or, at least, alleviate the eternal dichotomy between politics and economics, in which the smaller or greater domination belonged to the politics. Thus, in one sophisticated methodological way, it attempts to erase that vague line of delimitation between them, that is, using Blaug's jargon, between "*explanation and justification*". And not only between politics and economics, but also sociology. In this regard, Thévenot (2007, pp. 78-79) points out that "*political science responds to new challenges solely by borrowing economic theoretical concepts (management, rational action, strategic manipulation, etc.), since it has no genuine or adequate approaches to the reconstruction of political institutions*".

In a complex consideration of the choice of possible economic objectives, value judgments, and applied coordination means, which presuppose the so-called *interpretative rationality*, the leading representatives of this theory (Thévenot, Eymard-Duverneau, Favereau, Orléan, Salais, Boltanski, Chiapello, etc.) try to formulate a common vector of studying the contemporary economic reality. It also comes to the impression that when explaining the logic of market choice, they largely follow the recommendation of Nobel Laureate *M. Allais*, who in an interview pointed to the "*necessity of synthesis and unconditional subordination to the lessons of practice*". And not only his, but also the recommendation of J. K. Galbraith (1994, pp. 63-64), who argues that "*economic science should not be a soulless abstraction*".

Finally, this theory attempts to reduce to some extent the pronounced relativity of economic theory, which is the result of a) growing interaction between economics and politics, sociology, psychology, law, philosophy, ecology, history, institutional analysis, etc., b) dynamics of economic subject, c) complexity of economic reality, and d) abstractness of economic science itself.

In the considered article, Thévenot (2007, p.76) interprets his own attitudes and views of other representatives of the French Conventionalism School, stressing that "*the economics of conventions program is focused on three subjects, which are opposed to each other in economic thought during the last century and a half: the agent characteristics and his/her motives; variants of coordination activities and the role of values and public goods*". Thévenot attempts to overcome the dichotomy of the standard theory (neoclassical – a note by M.D.) between "*rationality and coordination issues, which have never been associated with the third subject – value judgments and behavioral norms*". Here follows the main explanation, or the key

idea of their theory: *“If we agree that the coordination of activities requires efforts, and that it is not realized automatically according to natural laws, then follows primarily the interpretative, and not only the calculative character of rational human behavior”* (Ibid). As you can see, the principle of rationality is not rejected, it has a relative and interpretative character, which seems quite logical, since people in everyday economic activities do not deviate from their own rational calculations, but must implement and respect the various conventional frameworks through which they understand the intentions and actions of other people (contra-agents), which requires both cognitive and evaluation (interpretative) efforts.

Since the essential problems of economists are connected with uncertainty and information, while uncertainty has the character of “critical” (“radical”), Thévenot thinks that it can be reduced by conventions, and introducing a general procedure for the subject evaluation (interpretativity) as the assumption of coordination (Ibid, p. 86). In the end, we present Table 4, which is completely taken from the article in question, because it sufficiently provides additional explanations for a better understanding of the theory of conventions, and also significantly overcomes the problem we have pointed out - incompleteness of the institutional world matrix (from Table 1).

**Table 4: Forms of real (significant) systems**

Real system	Market	Industrial	Traditional	Public opinion	Civil	Inspiration
Way of assessment	Price	Productivity, Technical efficiency	Respect, Reputation	Renome, Familiarity	Collective interest	Innovation, Creativity
Format information	Money	Measurable: series, statistics	Oral, Indicatory, Thorough		Formal	Emotional
Real objects	Market goods and services	Investments, Techniques, Methods	Heritage of specific assets	Sign, means of information	Right, Regulation	Artistic, Religious
Elementary relations	Exchange	Functional connection	Trust	Recognition	Solidarity	Passion
Subject qualification	Interested	Professional, Expert		Famous	Representative	Creative
Time organization	Present, short term	Future planning, Long term	By habit	Modern	Stable	Interrupted
Space organization	Global, market	Cartesian space	Polar: based on closeness	Communication, Visibility	Homogeneous	In the presence

Author's creation



Although an ecological “world” is lacking, the above table explains in more detail the basic idea of French conventionalist-intuitionists. It provides a better understanding of the suggested “legitimate” means of pluralistic coordination, conditioned by the existence of many institutional subsystems (“worlds”), the principles of evaluating others' intentions and behaviors (interpretativity), as well as critical uncertainty, which occurs in all situations that lack minimum frames of normative coordination (conventions as specific institutions).

The theory of consensus does not have set conceptual boundaries, on which the direction of its criticism towards neoclassical rationality is actually based, as well as towards neoinstitutional economic theory to a significant extent. It represents the concept that is an alternative to orthodox neoclassical theory, since instead of the thesis on universality of norms of market behaviour it postulates the existence of numerous forms of coordination and different types of agreement.

The idea of numerous possible ways of assessing quality and form of coordination of business activity represents the basis of the discussed theory. It is based on few key hypothesis and original terms. Its basic characteristics represent: a) specific methodology, close to neoinstitutionalism, especially when it comes to restricting of economic behaviour and relevant bunch of coordination forms, b) original approach to a company and market, which are seen as two different forms of coordination of economic activities, whereby companies, being the organisations, do not have a passive role but they form the market as a form of competition among themselves and create working posts, which are protected from competition to a significant extent and c) extremely wide spectrum of motivations.

Assertions of French conventionalists are correct to a significant extent, as it seems to us, at least in a part where they discuss companies that create relations which do not always have market character but are conditioned with credence, technological dependence, hierarchy and so on. The best confirmations of this, in our opinion, are intra-company exchanges, strategic alliances, virtual organisations and business network connection. Of course, all of this requires the existence of norms, rules and conventions, which is incompatible with interpretation of individual rationality. Looking through this prism, one can indirectly conclude that neither free market nor state intervention are the only or universal forms of coordination. Moreover, let's remember that Evenko wrote about three, in principle different, “management instruments”: hierarchy, culture and market.

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# POSSIBILITIES AND LIMITATIONS OF NEOINSTITUTIONAL ECONOMIC THEORY IN EXPLAINING THE TRANSITION CRISIS – THE CASE OF MONTENEGRO

**Mimo Draskovic**

*This article, using selective approach, explains the development of the Neoinstitutional Economic Theory (NET) in Montenegro through the elaboration of its key problems, dilemmas and achievements. It analyzes the variation of institutional changes from proclaimed direction of reform and its turn to institutional deviations, which negatively impacted economy and society. It explores and explains the transformation of institutional vacuum to quasi-institutional monism, which has grown into a phenomenon of institutional nihilism, with a consistent application of interest-oriented neoliberal solutions. Thus, institutions are not universal means of protecting people from the government's tyranny. That happens in the conditions of dominant neoliberal rhetoric, and privileged (non-market) rules conduct that surpass institutional domain. This paper attempts to explain: the essence of neglecting the real institutionalization in the post-socialist countries, through the identification of the quasi-institutionalization model and the short analysis of such reasons, and the paradox of the established phenomenon that the institutions, as the stipulations and constraints, have become the barrier for their unlimited avoidance and quasi-institutionalization. Oddly enough, nomenclature authorities are those who should implement institutional changes, and form the alternative institutions (from the shadows). This way, contrary to the recommendations of the NET, they speak out against the formal and informal institutions, against the interests of citizens, against social and economic development.*

**T**he beginning of post-socialist transition in many countries of Southeast Europe (SEE), including Montenegro, has led to many new phenomena in economic reality and economic science. In the economic reality of monistic neoliberal type was enforced, with the dominant neoliberal economic policy within the state regulation.

Neoliberalism implies monistic institutional choice (arrangement) for the market-oriented economic policy in the context of reforming the economic system (Scekic, Draskovic and Delibasic, 2016). Former formational monism (domination of the socialist dictatorships) is replaced with a totalitarian method of violence (North, Wallis and Weingast, 2009), with anti-civilizational and quasi-institutional monism (by domination of radical neoliberalism theory and quasi-neoliberalism in practice). That way, the freedom of choice and institutional pluralism were negated, and they are the basic criteria for the development of civilization.

Deficit of institutional changes („institutional nihilism“) enabled the long-term reestablishing of *institutional vacuum*. It created conditions for merging authorities with money (business), and enhancing the quasi-institutional relations (flea market, black, grey and quasy-market, paternalism, nepotism, monopolism, log-rolling, lobbying, rent-seeking behaviour and motivation, naturalization, dominance of politics over economy, etc). Generally, all this have led to the creation of “predatory” state (Evans, 1993) instead of a developmental state.

In institutional terms, due to the rhetoric enforcement of market regulation and real non-market behavior, and feathering of privileged nest in practice, the mentioned order fully corresponds with the term „market fundamentalism“ (by G. Soros, J. Stiglitz). For practical purposes, there has been an extension and intensification of social and economic crisis, with unforeseeable and lasting consequences. However, many phenomenon emerged in practice, and that requires a theoretical explanation. Thus, in Mointenegro, theoretical discussions took place between representatives of the two opposing blocks: gradualism and institutional pluralism on one side, and shock therapy and institutional monism on the other. A small number of representatives from both sides were not a requirement, due to the publication of relatively large number of different scientific papers. In the ambience where politics dominates over economy, the enforcement of non-market factors, and the spread of quasi-institutionalism, logically has imposed the need for NET application in the analysis and explanation of the complex social crisis and the economic reality of Montenegro.

## **Theoretical framework**

In the early 1990s, at the beginning of the transitional period in Montenegro, there was a theoretical conflict between the representatives of neoliberalism („reformers“), and neoinstitutionalism. The former have accused the latter for not understanding the market reforms and entrepreneurship, insisting on a maximum deregulation. The latter have accused the former for apologetics, conflict of interests, and inconsistent economic policy. After some time, the practice has convincingly shown that the application of neoliberal improvisation has led to enormous problems and crises in all areas of the economy and society. Thereby, it came to the non-market

and privileged choices, which often led to criminal ways of transferring the state property into private property.

Nomenclature structures and redistributive coalitions were able to turn the social losses into their own (private) profits. But not entirely, because, national resources have been mercilessly destroyed, and their transformation into private property led to largely negative externalities, or social losses. They were the result of monopolistic behavior and selfish disregard of social and development interests. In the field of economic science, there has been an urgent abolition of political economy, in two directions:

- *firstly*, until replacing its principles of neoclassical economics within the university disciplines;
- *secondly*, until the orchestrated, uncritical, programmed, and extremely apologetic enforcement of neoliberalism at the publicistic level with a very low scientific quality.

That was accompanied with a numerous media articles, which have been paradoxically suggesting that alleged „benefits“ of neoliberalism and the need for so-called „minimal“ state. Uncritical acceptance of neoliberalism was conditioned by the attempt to establish a new institutional monism as a critique of the historical heritage (path dependence) of an institutional monism (socialist dirigisme), sing a market paradigm. The influencing factors were: ideology of liberalism, interests of the ruling „elite“, and international environment.

Many well-known economists have instantly noticed and criticized the superficiality, selectivity, apologetics, and detrimental effects of the Neoliberal Economic Policy (NEP) with no-alternative one-sided interest. The NEP has crucially contributed to the formation of a specific hindering and crisis transitional model „D“, which has been criticized by V. Draskovic & M. Draskovic (2012) in several articles. Model „D“ contains: deformations, disproportion, destabilization, demotivation, differentiations, deficits, disinvestment, deregulation, dogmatism, dictates, etc.

Similarly critical were B. Yerznkian, (2012), D. Stojanov (2012), J. Prasnikar, P. Domadenik, M. Koman (2016), M. Draskovic, S. Bauk, M. Delibasic (2016), and others. Very few economists have based their criticism on the recommendations of the NET. Their attempt was to explain the arguments of all the negative phenomena in the society and economy, and to criticize the destructive neoliberal order through consistent recommendations of the NET. Thus, they proved the imperative need to apply institutional pluralism and interest reasons of its negation. However, the apologetical impact of neoliberals was extremely strong, and highly instrumentalized (Draskovic, 2016).

It was in conjunction with the interests of the government nomenclature and foreign consultants. Therefore, it was the matter of paradoxical propaganda of the institutional monism (model type), which in practice did not exist. Respectively, in

the SEE region, the publishing of many scientific articles have begun. Monographs and dissertations criticized the NEP, based on the NET.

**Table 5. List of publications of Montenegrin authors regarding the NET**

<i>Number of type of publication</i>	<i>publications in Montenegro</i>	<i>authors</i>	<i>publications in region SEE</i>	<i>authors</i>	<i>publications in other countries</i>	<i>authors</i>
Scientific monographs	10	5	1	1	2	1
Scientific article	43	10	42	10	35	5
The presentations at conferences	19	9	25	8	25	9
Doctoral dissertation	3	3	1	1	-	-

#### Author's creation

The subject of this article, through the selected bibliographic sources, is:

- to show the theoretical role of the NET as an alternative through the cited publications in Montenegro,
  - to explain their thematic and critical focus, and the sense of the most important recommendations,
  - to verify total negligence of the above mentioned criticisms and recommendations by the government nomenclature, as well as conflict of interests,
  - to discuss the quasi-institutional monistic essence of the eternal non-compatibility of the role of two key economic regulators (state and market), and the appropriate forms of ownership and motivation (state and private), in the phenomenological and problematic sphere, through the prism of vague categories of economic freedoms, interests and equity, and
  - to suggest institutional pluralism as a civilizational imperative of development.
- J. Eatwell et al. (1995) point out that successful modernization in all developed economies require a combination of free market initiatives and state intervention, because in the long run, there should not be any conflict between objectives and principles of economic efficiency and social justice, since the lack of the latter sooner or later leads to the loss of the former.

The NET, as an alternative economic theory in Montenegro, has been present through the publication of scientific articles, monographs, doctoral dissertations, and scientific reports.

## **The basic research topics, phenomena and paradoxes**

Transitional practice of post-socialist economies raised many controversial social and economic issues. It has enabled verification of certain conclusions of economic theory (especially the neoliberal and the NET) regarding explanation of many problems and dilemmas, such as:

- role and relationship of the state regulation and market regulation, appropriate forms of ownership, decentralization and deregulation,
- institutional monism vs. pluralistic institutional changes,
- individualism vs. institutions,
- institutional monism vs. quasi-institutional monism,
- opportunistic causes of transformational decline, and the role of alternative institutions,
- crisis of non-system (organizational, institutional and normative vacuum)
- economic and social degradation, intensifying and reproducing the social and economic crisis, and so on.

In order to better define and explain these problems, dilemmas and paradoxes, we show two basic thematic segments, which were present in the Montenegrin scientific publications:

- criticism of practical impact factors, which predominantly hinder the real and pluralistic institutional changes, and
- theoretical affirmation of the NET achievements and recommendations.

## **Criticism of hindering factors affecting the affirmation of the NET recommendations**

The main obstructive factors of influence are: neoliberal apologetics (in theory), and neoliberal economic policy, which in practice often tolerate quasi-neoliberal phenomena. In the application of double standards lies the main methodological paradox and the essence of fraud: the code of conduct should exist, but the government that controls it also tolerates (and allows) the exception of some (privileged ones)! The above paradox created a new (logically derived) paradox: A system has been established (predatory model), in which none of the institutional monisms acted consistently: neither a market regulation, nor a government regulation! following this order, the individualism of the privileged substituted mass individualism (of all) - in all important segments of the society and economy: the economic freedom, entrepreneurship, private property, etc. Under the non-market and privileged manifestations operated various abuses, among which the most significant are:

- conversion of state property into private (i.e. rapacious privatization),
- dysfunctional state regulation,

- quasi-institutional, quasi monistic, and apologetic (neoliberal) forcing of the market regulation,
- recognition of the privileged individualism,
- opportunistic behaviour and dominance of alternative institutions (Draskovic, Draskovic, Bilan and Delibasic, 2016).

### **Rapacious privatization (abuse of state resources)**

Methodology of the mass voucher privatization was very efficient and brisk way of redistributing huge national wealth among narrow groups of individuals. Ideology was mainly based on promises and slogans on massiveness, equality (again!), market competitiveness, and economic freedoms. All this was harshly violated. After rapacious privatization and other non-market (privileged) ways of getting rich, came a period of rent-seeking behavior and so-called economy. And all that was in favour of vulgarizing neoliberal philosophy, based on one-sided praise of the market, even in above mentioned deformed conditions, which led to the substantial decrease in economic freedom levels. Judging by certain features, and its manifestation forms, economic neoliberalism resembled a neoimperialism.

Ordered redistribution of state property was carried out to the detriment of the nation, and in favor of a small privileged group. People have become „free“ of the property, and consequently free of economic freedom. This has blocked the real institutional change (institutional transformation), and also institutional competition, institutional innovation, and institutional control. In accordance with self-sufficient markets, a selfish privatization process was conducted, reduced solely to a quick change of ownership titles. Efficiency, as the target function and the basic criteria of privatization, has been excluded. A mass voucher privatization was performed.

The NET denies its consistency through their recommendations for effective protection and clear specification of property rights, for the security and the creation of conditions for their free exchange. A mass voucher privatization has failed to fulfill those conditions. Montenegrin authors (Draskovic, Bauk & Delibasic, 2016) indicated the domination of socio-pathological forms of privatization (unjust, non-market, illegal, uncontrolled, speculative, interest-lobbying).

There was vulnerability, non-specific (undefined) ownership rights and non-sanctioned attenuation. They have contributed to the collapse of economic environment through uncontrolled, irregular and non-market spillovers of national and social resources into private property. Therefore, in terms of deficit of the rule of law, and surplus of power over the people, privatization has lost its primary goal and function - the creation of effective owners. Economic indicators show the expensive price paid for such failed economic and political experiment of monistic and anti-democratic type. Transaction costs of implemented privatization and economic “reforms” are far greater than the benefits, because they practically do not exist, except for the



rich privileged individuals. In terms of real institutional change deficit, and conflicting relationships between the state and market regulation, high transaction costs proves the lack of development as their target function. This is understandable due to the lack of dynamism of pluralist institutional changes, replaced by a monistic quasi-institutionalization.

### **Misuse of state regulation (their dysfunctionality)**

Representatives of neoinstitutionalism criticized the government regulation (in the part of the government's decisions, abuse, and dictatorship), and sought ways of its limitation. But, they advocated the fulfillment of the functions of protective order. They demystified the notion that the government was a good protector of state (social) interests. They never questioned institutional pluralism, but felt that it was necessary to fundamentally change and improve the mechanism of decision-making at the political level, because development of economic policy depended on it, in order to protect the human rights and interests of the majority of people.

Unfortunately, in the SEE countries, including Montenegro, happened the opposite (Draskovic, Bauk and Delibasic, 2016). Certain privileged persons abused the state institutions to achieve personal goals (interests). Understanding the nature of the failed market, social goods, and redistribution processes helps to analogously consider and explain the role of the state in market processes. Economic analysis of state governance and political processes has shown that neither state nor market regulation, as an institutions, are not an ideal mechanism. Among other things, they are not able to carry out a rational transformation of resources into social good in a way that meets the demands of their users. Their action often disrupts relationships between economic efficiency and social justice.

Montenegrin practice has shown that the biggest problems came up when the allocation and reallocation of resources the public sector has not been implemented on the market, but in the political processes (i.e. in the state government). According to V. Key (1949, p. 464), the minority practically holds enormous power. This phenomenon (the logic of organized interests of small and privileged groups) directly led to the inefficient and interests redistribution of social resources in favor of the minority, at the expense of citizen's majority. This was enabled through the violent influence of government on the election outcome, when the unorganized and unprotected interests of large latent groups lost in the long run (Olson, 2002).

This is completely contrary to the rule of the majority, and therefore the real democracy. Thus, various benefits and privileges (tax, customs, financial, information, etc.) were conducted through non-market ways. This led to the formation of a large gap between the narrow circle of nouveau riche, and wide range of poor members of society. Poverty line was drastically shifted; paradoxical dominations were enforced, as well as alienation, perfidious exploitation, increased unemploy-

ment, economic collapse, and mass democratic un-freedom. All these problems have been addressed by the authors from Montenegro (Draskovic, 2006; Delibasic and Grgurevic, 2013; Lakic and Draskovic, 2015), and from other post-socialist countries (Kolodko, 2005; Kornai, 2006; Mesaric, 2012; Polterovich, 2012; Stojanov, 2012; Yerznkyan, 2012).

### **Affirmation of privileged individualism**

Institutions as collective patterns of behavior (rules of the game) are the most developed in the West (conditionally: in the capitalist countries), where “true individualism” flourishes. This demonstrates that developed institutions did not and can not be a brake or contra individualism. Inseparable components of the most institutional arrangements and overall institutional order of the modern developed economies have been individually and collectively separated. However, in Montenegro, it was vice versa: institutions were not developing, which contributed to the development of alternative institutions, strengthening individualism of the rare, and the suppression of individualism in mass proportions (through the reduction of economic freedom, economic choice, private sector, and efficient owners). Institutional improvisation and institutional „innovations“ have favored the creation of a quasi-institutional monism and monopolism, imposing the dominance of merely a few individuals.

Paradoxically was neglected individualism of all. It was substituted by the one-sided and selective individualism, which was developed by gravity of interests of privileged individuals. Institutional innovations imply civilizational norms (V. Draskovic and M. Draskovic, 2009), placing economic behaviour in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favour healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market - yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behaviour, institutional standards, protected and well specified property rights! Only real institutional innovations can neutralize party-lobby structures, and can activate the lack of control mechanisms, rule of law, economic freedoms, and efficient instruments of economic policy.

Economic individualism has its advantages (when institutionalized), and its flaws (when not institutionalized). In the latter case, the individual rights exhibit uncontrolled and often opportunistic behaviour when social obligations are ignored, with the emergence of numerous negative externalities. It is not known whether the classics of economic individualism have justified in the case when behaviour of individuals who violate the rights of other individuals. And that is happening in

Montenegro. Domination of selective individualism was and still is the base of dominated economic un-freedom (Mesaric, 2012; Draskovic, 2012). In considering individualism, one must analyse all its positive and negative manifestations, backlinks with institutions and collective actions, causes and consequences of uncontrolled individualism, limits of “reformist” centralization, and quasi-institutional politicization. Economic development requires a critical mass of real evolutionary competence, which implies the synergy of institutional and individual competencies. When individualism of the few negates mass individualism, it is a classic violence against majority of population and an abuse of power.

Violence against them and against institutional changes was conducted under the banner of expanding the individual freedoms, ignoring the fact that, when freedom lacks moral, legal, environmental and other social restrictions, greed becomes the drive for the wealth of individuals at any cost. Economic behaviour in practice has been far from standard norms and rules, because it was controlled by subjective regulators. The perverted and reduced individualism (Yerznkyan, 2012; Draskovic, 2012) was imposed as a social and civilizational norm. Interest motives of quasi-elite’s individualism dominated the rational economic and social choices. The rhetoric of change has substituted the real change. The proclaimed competition was replaced by monopolies. The totalitarian party control dominated the institutions and individuals. Individualism was reduced to a vast institutionalization of privileges, which was the basis for the quasi-institutionalization and meta-institutionalization (over-institutions and institutions of total control).

Montenegrin authors (Draskovic, 2005; Lojpur and Draskovic, 2013. Draskovic and Delibasic, 2014; Delibasic, 2016) wrote about it in several occasions, reminding that the NET recommended synergism and complementarity of institutions and individual arrangements, because it contributed to efficient institutional structure in order to reach social welfare and a high degree of freedom (North, 1981, p. 32), through an agreed and equitable distribution of state coercion.

### **Opportunistic behavior and the dominance of alternative institutions**

All Montenegrin authors, who have implemented the NET recommendations, noted the expansion of opportunistic behavior in the economic reality (Draskovic, 2006; V. Draskovic and M. Draskovic, 2009; Delibasic & Grgurevic, 2013; Delibasic, 2015; Lakic and Draskovic, 2015), as well as many foreign authors (Mencinger, 2005; Kolodko, 2005; Kornai, 2006; Kirdina, 2012; Mesaric, 2012; Osipov, 2012; Polterovich, 2012; Stojanov, 2012; Yerznkyan, 2012; Madzar, 2012; Popov and Ersh, 2016).

In the post-socialist period, a system of alternative institutions has been established. It comprises various socio-pathological creations, a grey economy, and the continued application of wrong monistic recipes of neoliberal “shock therapy.” Mo-

reover, it compensates for the strictness of formal rules through non-performance, corruption, attenuation of property rights, forming of various behaviour stereotypes, and the actuation of informal behaviours (spreading institutional conflicts), etc. The effects of the alternative institutions system have been especially visible in the rapacious privatization. Many market substitutes routed mutant and pseudo-market structures of alternative type. They just imitate market infrastructure. Flea market, black, grey and quasy-market are in the function of surviving for most of the population, and monopolies are in function of beneficiating minorities. Competition is reduced to the above mentioned primitive market structures. Certain restrictions on the market (monopoly power, social goods, external effects, dysfunctional state regulation, market failure, and asymmetric information) favour the spread of opportunistic behaviour.

Economic institutions have been replaced with pseudo-forms (imitation and improvisation), such as meta-institutionalization (the creation of over-institutions and institutions of total control), institutional monism (uncontrolled market without parallel formation of complementary institutions), and quasi-institutionalization (paternalism, monopoly, lobbying, grey economy, annuity-oriented behaviour, naturalization, predacious privatization, privileged “*newly established entrepreneurs*” as alleged “*efficient owners*” etc.).

The failure of post-socialism transition undoubtedly resulted in the application of fatal “reform” politics with double standards. Under the rhetorical neoliberal mask, the competition, entrepreneurship, freedoms, the politics, and strategy of “reformers” have been oriented toward non-marketable process, motivated strictly by individual interests. During the period of the transition in Montenegro, the whole system of inhibiting institutional factors has caused the disfunctional conglomerate system. The effect was synergetic, destructive, and anti-development. A phenomenon where institutions as the rules and constrains became the barrier for their unlimited avoiding, has been established. Quasi-elites, supported by the apologetic, quasi-intellectual elites, represent the main obstacle to institutional changes. Instead of pursuing real institutionalization, violence against it was carried out, under the banner of spreading individual freedoms. Economic behaviour is controlled by subjective regulators. Distorted and reduced individualism is being imposed as a social norm (V. Draskovic and M. Draskovic 2009; Kirdina, 2015).

A real and legal liberalization, privatization and pluralistic institutional and structural changes are the condition for successful transition. However, a violent application of interest, privileged, non-market, and monistic “*shock therapy*” of neoliberal type, as well as its absolute dominance in relation to reasonable “*democratic gradualism*” and institutional pluralism, proved to be disastrous. Absolutization of apologetic neoliberalism in the theory, and its transformation into a quasi-neoliberalism practice have enabled a broad affirmation of deviations in the behaviour of economic agents, which has led through opportunistic behavior with drastic negative consequences. Their most visible application is in the dominance of alternative institutions. The system of social values has been disrupted. Instead of professiona-

lism, creativity, knowledge, and science, party affiliation, authority, eligibility are in favour. The criminalization of the economy, widespread corruption and a range of socio-pathological phenomena have flourished. The rhetoric of change has substituted the real change – civilization change, institutional change, and other types of fundamental changes.

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# INSTITUTIONAL NIHILISM OF THE POST-SOCIALIST TRANSITION

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*Private initiative in an environment of well protected property rights and a good legal system, high quality performance of institutions, clear rules of the game, consensus building capacity of the society regarding the importance of economic freedom can bring in significant differences in economic development between particular countries. During the period of the post-socialism transition, the whole system of inhibiting institutional and other factors has caused the disfunctional conglomerate system. The effect was synergetic, destructive, and anti-development. Two decades of intense crisis, with all the accompanying events, has not been sufficient warning to holders of (vulgarised neoliberal) economic policy in the post-socialism states that something is wrong and that the anti-development model ultimately needs to be changed. This paper discusses the causes and conditions that have disabled the pluralistic and even monistic acting of economic institutions in the practice of transitional countries and have led to their objective substitution by the quasi-institutions and meta-institutions of a sociopathological nature. It emphasizes the primary significance of institutionalization for economic policy, as well as the negative effect of pseudo-institutionss on economic policy and the valorisation of economic resources. In addition, the article provides evidence that monistic pseudo-market reforms in the period of post-socialist transition have not succeeded in compensating for a vast institutional vacuum, and that they have even led to its spreading and turning into a quasi-institutionalization, and institutional nihilism. The paper explains that the institute of civil society as an instrument of people protection from the government doesn't work universally. It's denied by variety of national, corporate and informal groups ("elites"), which are superior in wealth and power and limiting the individuals. Uncontrolled power centers abuse Institute of state regulation and, paradoxically*

*and ironically, preach and conduct marauding ideology of neoliberalism as an institutional monism. We start from the hypothesis that the institutional nihilism is the main cause of unsuccessful postsocial transition and anti-development and vulgarized neoliberal economic policy. We also start from hypothesis that the neoliberal myth about "mini" state was the interest cover by privileged individuals for their promotion and choice implementation, which reduced the choice of the vast majority of people, and therefore denied their (propagated) economic freedom, competition, private property and entrepreneurship as a mass phenomenon.*

A. Smith found that growth depends on two types of factors. In the first part of the equation, he focused on the production factors, that are today in the centre of interest of endogenous growth theory, which works in the neoclassical tradition and focuses on production factors, especially on technological development and human capital (Aghion, Howitt). In the other, Smith stressed the importance of a proper institutional setting, i.e. an environment that supports growth. More recent evidence suggests that growth is determined by a much larger set of endogenously determined variables (Romer, Lucas). Endogenous growth models have pointed out many other variables that contribute to differences in growth rates, such as knowledge spillovers, technology transfers, R&D funds, and human capital. Yet even these ideas fail to explain the observed patterns of development. His theory implies that institutionally sensible policies can result in a GDP growth rate that is permanently higher (Kese-ljevic, 2007, p. 224).

The failure of transition in the post-socialist countries resulted from the application of “reform” politics with double standards. Under the rhetorical neoliberal mask of the market, competition and freedoms, the politics and strategy of “reformers” were oriented toward non-marketable process, motivated strictly by individual interests, instead of propagated social and economic results. Social and human values were degraded. Everything or nearly everything was out of control. Retro-graded processes were abundantly materially awarded, and social and economic results were catastrophic. Focusing on the process and neglecting results is possible only in the conditions of institutional underdevelopment, which enables the „flourishing” of interest-oriented errors and ambitions and their active impact on the economic politics. Crisis challenges may, in principle, have only one efficient response, which is the same at the global, regional or local level. It anticipates focusing and coordination of five development *i*-factors (Draskovic, 2010, p. 20):

- *i*nstitutions,
- *i*nfrastructure,

- *innovations*,
- *investment*, and
- *information* (conditionally: knowledge).

This paper makes a distinction between the institutional vacuum that occurred during the initial period of transition and the run-in institutional nihilism that resulted from the long-term change in the “*pathology of the neoliberal model*” discussed by M. Mesaric (2011, p.12). It has led to the creation of socially irresponsible and immoral mutant economic and social order, the alleged “*version of capitalism*”, but “*without a human face*”, which is opposite from the models suggested by Young (2003), Aburdene (2005) and other authors.

There is no matter how versatile modern theoretical approaches are, and how frequent considering of the institutional problems of the economic growth and development are, the questions of the concrete contents, of the dynamics and improvements of the economic institutions, and especially of their functional applications in the traditional economics do not have deep and complex basis, nor satisfying analytical and practical answers, up to now. All is reduced to the descriptive scientific approach. This, in certain way, resulted in the starting hypothesis from which the subject and aim of this paper's research have been formulated. They consist in an attempt of identifying real and concrete reasons of reproducing the institutional vacuum in the transitional economics. Simultaneously these are the reasons of the clash between the formal rules and their slow and weak usability in the practice. This paper attempts to explain:

- The essence of neglecting the real institutionalization in the post socialism countries, through the identification of the quasi-institutionalization model and the short analysis of the mentioned reasons, and
- The paradox of the established phenomenon that the institutions as the rules and constraints became the barrier for their unlimited avoiding, meta-institutionalization, and quasi-institutionalization.

### **Socialist experiment of institutional monism**

Institutional monism experiment in socialist countries began in socialism, somewhere before (1917, Russia) and somewhere later (1945, Yugoslavia). It is characterized by:

- open repression of the government system, dominance of bureaucratic etatism and management (command economy) along with planning naturalization of commodity-money relations and undeveloped and unorganized market,
- economic inefficiency caused by the system destimulation, paternalism, employees' lack of interests, fictitious employment etc.,

- ideological and political subjectivism and dogmatism, which caused dissatisfaction among people as well as numerous socio-pathological phenomena,
- ideological blurring of the essence of economic reality, which was dominated by monopolistic structures,
- false collectivism of organized economic and political coercion, and equality at a low level of satisfying needs,
- vicious and controversial circle of fundamental system elements (public ownership, monopoly of the state sector, total planning determination - the road to communism) and
- many negative consequences, such as price disparities, trade deficits, trade imbalances, speculative market, the dual exchange services of rublj, low living standards, extensive economic growth, economic stagnation and crisis, totalitarianism reproduction in all areas of life and work, etc.

The implementation of general social and economic reform („*perestroika*“) began in 1985. in the USSR, with a demand for „more socialism“. The results were devastating. They showed that something is much easier to proclaim than to achieve. It was not easy to bring down the house which had been built for decades based on directives, slogans and false promises, on the one hand, and enthusiasm, persecution and sacrifice, on the other. In the early 1990s, post-socialist transition began in Russia, in all former USSR states and other countries of Eastern and Southeastern Europe (Draskovic, 1995). It implied radical economic and social reforms, transition from authoritarianism to democracy, pluralism to monism, from socialism to a mixed progress society, from formational to civilizational development.

Key control and other instruments of the socialist regulation of the state were rapidly destroyed, whereas new instruments were insufficiently formed and they were not duly adapted to meet market principles and requirements even in their reduced form. Rapid and non-selective removal of the „created“ state property and its conversion into private ownership has further weakened the institute of state regulation. Handling the main levers of economic system was reduced whereas its unsystematic features were increased, the economy was criminalized and many forms of quasi-institutionalization were expanded. Corrective activity of the state regulation „from above“ is absent, which should accelerate the development of other economic institutions (the market regulation and property rights), which were separately developed in monistic and metastatic fashion. Closely privileged motivation and entrepreneurial initiative of rare individuals was forced.

Privatization was not conducted in accordance with certain legal and economic criteria; therefore it did not create the conditions for increasing the economic efficiency and economic freedom. It usually presents an insufficient condition for economic efficiency as its main promoters are the competition, management improvement, efficient and flexible regulation of the state. Competition is reduced to primitive market structures whereas the monopolies took advantage of all the chances that occurred (that were made possible for the privileged individuals). The lack of eco-

conomic efficiency as the undisputed target functions and / or basic privatization criteria says enough about its failure. Transition dogmas were formed replacing the socialist ones with an uncertain shelf life and altered value criteria ranging from ‘shock therapy’ through the theological replacement of goals of economic growth and development (finding the way out of the crisis, economic growth, efficiency) with the means (liberalization, privatization, democratization, institutionalization, stabilization), to the socio-pathological demagoguery and rhetoric which were used to create the alleged real institutional changes (Draskovic, 2010, p. 12).

“*Woe account of socialism*” (S. S. Shatalin) was replaced by a new mutant order, which did not lead to the desired prosperity. Nations still pay other people's accounts for the failure of “reforms” that were focused on the narrow interests of new “elites”, the crisis intensified and reproduced, the enormous polarization between the impoverished nation and the enriched rare privileged individuals, while dissatisfaction is huge. The cause must be sought in the concealment, vulgarization and abuse of institutional changes.

The transition to a mixed institutional economics in China of the 1980s and 1990s is the evidence that the gradation transition is much easier and more efficient than the “*shock therapy*”. The Chinese have proved in practice their wise saying that “*it does not matter what color is the cat, while it catches mice*”. In addition, they relativized assertions of many Western economists regarding incompatibility of the market and socialism (“*Spontaneous evolution and cognitive control*” - F. Hayek) . There are differences between some regions, as shows table below, because China's GDP, at purchasing power parity (PPP), was 80 per cent of that of the US in 2009, and “*by 2014, at current rates of relative growth, China's economy will pass the US, in absolute size, to be the biggest in the world*” (Wolf, 2010).

Neither the failure of the market, nor all the strains of the market, or even many economic crises that build upon each other, or even fatal consequences of the transition are sufficient to understand the illusion and deception of vulgarised institutional market monism. Consistent application of even that part of the state regulation referring to the rules of conduct (probably equal for all?) would be sufficient to eliminate all irregularities, negativity, and deformation that marked the “rule of law” and “entrepreneurship policy” of neoliberal “reformers”.

A complete distrust in the institute of state regulation is neither logical nor productive and is not appropriate for increasing IT, production, innovative, financial and civilizational integrations. Even if we ignore government economic functions (in the part of macroeconomic policy), we must wonder: why has its legal and control function failed, without even being questioned by anyone? It is clear that the political decisions influence the economic decisions that were focused on maximizing personal advantage of privileged individuals.

Table 6. **Growth in real GDP, 1989 to 2009e (for selected transition countries)**

<i>State</i>	<i>Index 2009 (1989=100)</i>	<i>Average per Year</i>
Poland	180	3,0
Czech Republic	137	1,6
Estonia	128	1,2
Hungary	127	1,2
Slovenia	144	1,8
<i>Central Europe and the Baltic states</i>	<i>150</i>	<i>2,0</i>
Bosnia and Hercegovina	81	-0,1
Bulgaria	109	0,4
FYR Macedonia	100	0
Montenegro	88	-1,1
Romania	118	0,8
Serbia	69	-2,9
<i>South-Eastern Europe</i>	<i>107</i>	<i>0,3</i>
Armenia	131	1,4
Belarus	156	2,2
Georgia	58	-3,7
Ukraine	60	-2,5
Russia	99	0
<i>Eastern Europe and the Caucasus</i>	<i>91</i>	<i>-0,5</i>
<i>All transition countries</i>	<i>131</i>	<i>1,4</i>

Source: adapted from Domazet, 2010, p. 15

Let us remember that the Nobel laureate D. North (1981, p. 32) wrote three decades ago: *“The dominant goal of the capitalist state is the construction of such institutional structures, especially the structure of ownership rights, using which it achieves maximization of income (social welfare-remark by the author) and a high degree of freedom”* (through minimization of costs for specification and protection of property rights – remark by authors).

Where are those so frequently propagated economic freedoms?

### **Why do we use the term institutional nihilism?**

*First*, because we believe that in the long run any economic institution does not really operate, not in a monistic way, and certainly not in terms of pluralism. *Second*, because the aforementioned is not by chance, but the institutional nihilism is deliberately being maintained and reproduced, because of the structures of power in society, which are pushing forward the alternative institutions. *Third*, because we see no

perspective of overcoming the encapsulated and untouchable institutional nihilism. A consistent development strategy and a successful economic policy cannot be created or implemented in these conditions. All conceptual elaborations are being blocked and modified through political decisions and choices that are motivated by the interests of “reformers”.

Privatization was carried out with the dominant *institutional nihilism*. The vast majority of the population was in fact separated from the property. The massive scale was in fact present, but a nihilistic and fraudulent one. A denial of mass effective owners took place, without which there can be no real, healthy market and entrepreneurship. Privatization was carried out with the dominant *institutional nihilism*. The vast majority of the population was separated from the property. There was a massivity, but a nihilistic and fraudulent one. Mass separation of the population from the property and the negation of mass effective owners, without which there is no real and healthy entrepreneurship and markets.

Post-socialist reforms were implemented by methods of quasi-institutional monism - neoliberalism, which has always bordered with nihilism and social pathology. The distorted market structures were formed. Entrepreneurship has become a privilege of the few individuals who are in many ways close to the power structure. A quasi-private sector was created, which is a degradation of real institutionalization.

A narrow circle of the rich was created, who acquired a large property in some of the non-market ways, with zero risk and with large avoidance of social obligations, especially taxes. Total domination of politics over all areas of life and work has disabled real democratization and institutionalization, and therefore social and economic development.

The epicenter of all problems of post-socialist transition was in an *institutional vacuum*, which eventually turned into *institutional nihilism*, with extremely unfavorable ownership structure as its key component.

I often think that the post-socialist transition in institutional terms is nothing but a reduced and simplified copy of globalization, with various forms and same essence. Solution to the problem must be sought in the development of a pluralistic institutional environment, which has to be compatible with the international environment. The most consistent positions regarding market self-sufficiency and spontaneous “messiahship” have been held by the neoclassicists and quasi-neoliberals for decades. They have been writing that all economic problems shall be resolved by price, competition, private property, efficient owners, and unregulated entrepreneurship.

How does the private sector function? Our research has shown that in one transition state the taxes are not paid by 80% of cafes and 70% of restaurants and in another state the payment of taxes is evaded to 60% by returning tax bills. There is a paradox in the first state which consists in the fact that there are enormous costs indicated on false and duplicate bills, naturally with tax, which is not being paid to the state! Therefore, the tax is being collected from the people, but goes to the

restaurant and cafe owners who do not pay it to state! I've got some examples here in my hand!

How does the public sector function? On a national competition for scientific projects in the conditions it was stated that the new candidates will be given an advantage. But, again, the old lobbyists got all the money, some even got the money for two projects! We cannot prove if there will be any log-rolling. It even happened that a project of a semi-literate man who has nothing to do with projects passed the evaluation and was approved for financing. The projects of great specialists who even evaluate the quality of all large investment projects for the government, were not approved for funding. In order to achieve the aforementioned scam, the evaluators of projects remained anonymous!

### **Modelling of transitional institutional nihilism**

Institutional nihilism is defined as:

- the situation created after the long-term anti-institutional action,
- intentional blockade of realistic institutional changes,
- promotion of quasi-institutional and meta-institutional changes,
- long-term effects of vulgarized neoliberal institutional monism, and
- long-term reproduction of institutional vacuum.

Economic development of post-socialist countries is based on permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neoliberal recipes of macroeconomic politics. The latter one has been extremely motivated by interests of insatiable appetites of state nomenclatures, which represented the main obstacle for institutional changes, apart from noticeable socio-pathologic milieu. All of this resulted in long-term destabilisation of economic systems through disinvestments and spilling over of positive effects in spending instead of production.

There has been a huge lap between formally established economic institutions from foreign economic policies and economic behaviour in practice, which was far from standard norms. A strategic significance of practical institutional innovations was disregarded as well as their priority role compared to economic politics. Vulgarized individualism was imposed by certain „*skilful and capable entrepreneurs*” („*efficient owners*”) as a social and civilizational norm. Such reduced individualism (of the privileged) became very fast a foundation of formal institutional monism as theoretic and ideological basis for neoliberal economic politics (which resembles economic „*Reseller Fog*” i.e. „*selling of nothing*” – without consequences for sellers.) The main cause of the mentioned phenomenon is a paradoxical need for the public economic policy to serve private interests.



Wrong post-socialist economic policies contributed to the creation of a specific brake and crisis transitional model „23 d” (adapted according to: Draskovic, 2007, p. 93), which is made of:

- *deformation* (of the economic reality, entrepreneurship, value criteria, competition, market principles),
- *deficit* (of the rule of law, developed democracy, institutional environment and changes),
- *deregulation* (excessive, non-selective, interest-motivated),
- *degeneration* (of the institutional environment, market structure and the healthy competition),
- *disinvestment* (mercantilist orientation in the selling of key economic facilities),
- *destructivity* (of the neoliberal economic policies, government nomenclature),
- *differentiations* (social, between rich and poor),
- *deviations* (transition, institutional, motivational, enrichment at all costs, civilizational standards, freedom of choice)
- *disproportion* (economic, between promises and results),
- *domination* (politics over economics, institutional monism over pluralism, individualism over mass phenomena, monopoly, social pathology, totalitarianism),
- *discrimination* (against real economic freedom, middle class),
- *dictates* (of the new "elite" party coalition, the party in power, institutional imitation and improvisation),
- *determination* (philosophy of a leader),
- *demagoguery* (of neoliberal economic ideas and rhetorical alibi-liberals, alleged “reformist”, which have abundantly profited in this rhetoric, switching hypothesis in terms of individualism and mass, etc.),
- *duality* (rhetoric and practice, individualism and mass, wealth and poverty, democracy and partyocracy, enjoyment and survival, protectionism and neoliberalism),
- *dichotomy* (of the economic institute of state and market regulation),
- *dogmatism* (of neoliberal recipes),
- *disorientation* (of economic agents, population),
- *disorganization* (of all social subsystems, lack of institutional control)
- *destabilization* (of the economy and society, reproduction of the crisis),
- *degradation* (of economic, social, moral values, economic freedom, private initiative and entrepreneurship),
- *denationalization* (carried out as a robbery) and
- *demotivation* (population).

The above mentioned model is characterised by the functioning of „rapacious country”, which substituted the „country of development”, eroding the socialist institutions and creating an institutional vacuum. This has enabled the initial rapacious mass privatisation and later on the so called „*privatisation of gains and nationalisation of losses*” (May, 2008, p. 7).

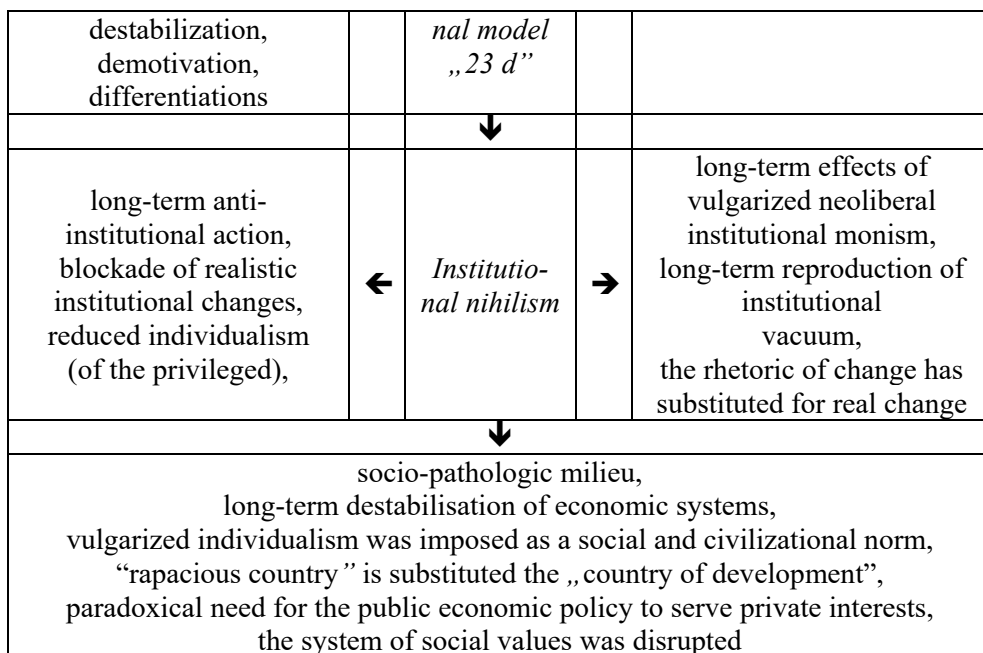
Populist and paternalistic tendencies are not avoided and the only unclearness is to which extent they compensated the primitivism of rapacious trends, monopolisation and criminalisation of post-socialist economies, accompanied with reduction of institutional changes (innovations), of economic freedoms and healthy market competition. One of the indicators of unsuccessfulness of post-socialist economic policies in the region can be a high level of systemic, political and economic risks, which are best illustrated by high interest rates, cautiousness of foreign investors and enormously low prices when privatising companies, hotels, banks, land and other property.

A theoretic approach implies state regulation of economic policy measures in all cases of inefficiency of market regulations, when economic growth and sustainable economic development are endangered. Since this type of interventions did not happen in the last two decades, the economic policy in that period cannot be called, at first glance, crisis policy. However, the practice shows something different: the complications of economic problems, erosion of state property and its decantation into the ownership of rare individuals (making of illegitimate profit), drastic social stratification and pauperization of citizens, high unemployment and fictive employment, flourishing of black and grey market, erosion of trade and industry and so on. A recombined regime was created. It is a system in which the economic policy resembles the marionette of certain political parties and individuals and which serves, as it seems, only the preservation of power and increase of property of the few. Since institutional solutions did not work, the responsibility should lie with those who create the government policy (economic and other).

**Table 7. From socialist institutional monism, through post-socialist institutional vacuum to institutional nihilism**

command economy, planning naturalization of commodity-money relations, undeveloped and unorganized market, ideological and political subjectivism and dogmatism, directives, slogans and false promises	←	<i>Socialist experiment of institutional monism</i>	→	paternalism, employees' lack of interests, fictitious employment, false collectivism of organized economic and political coercion, totalitarianism reproduction in all areas of life and work, enthusiasm, persecution and sacrifice
		↓		
focused on the narrow interests of new "elites", illusion and deception of institutional market monism,	←	<i>Post-socialist transition</i>	→	the crisis intensified and reproduced, the enormous polarization between the

a complete distrust in the institute of state regulation, privatisation of gains and nationalisation of losses				impoverished nation and the enriched rare privileged individuals, eroding the socialist institutions and creating an institutional vacuum
		↓		
continuation of the authoritarian tradition, dominated by disrupted market institutional monism, making of illegitimate profit, the institutionalization of privileges, the re-combination of old and new forms of tyranny (the party, goals, slogans, promises), grabbing privatization, the theological replacement of goals of economic growth end development with the means of liberalization, privatization, democratization, institutionalization, and stabilization	←	<i>Mutant order</i>	→	the economic policy resembles the marionette of certain political parties and individuals, “alternative institutions” system (various sociopathological creations, a grey economy, and the continued application of wrong monistic recipes of neoliberal “shock therapy, compensates for the strictness of formal rules through non-performance, corruption, attenuation of property rights, the formation of various behaviour stereotypes, and the actuation of informal behaviours)
		↓		
Quasi-institutionalization: flea market, black, grey and quasy-market, paternalism, nepotism, log rolling, lobbying, rent-oriented behaviour, naturalization	←	<i>Institutional vakuum</i>	→	Meta-institutionalisation: over-institutions and institutions of total control
		↓		
deformations, disproportion,	←	<i>Specific brake transitio-</i>	→	deficits, disinvestment, deregulation, dogmatism, dictates



Source: Authors creation

Mathematical modelling of economic reality has been in fashion for a long time, but has proven to be unsuccessful, regardless of the sympathies from the Nobel Committee. For the post-socialist transition, however, it is possible to make a simple mathematical model in the form of an equation, in which rich tycoons are approximately equal to the impoverishment of the people. Extended (approximate) mathematical model could be:

$$Lp + Ha + S = Wpi,$$

where Lp stands for - the loss of people, Ha – for help from abroad, S - for smuggling and Wpi - a wealth of privileged individuals.

The right side of the above equation would certainly include as a significant item the sum of structured privatized assets (mainly snatched). The capital can be discussed only in a small percentage, because much more lies in assets. This means that the privatized valuables are generally not placed in the entrepreneurial function. Hence the moral to many economic analysts, who uncritically argue that unemployment is one of the key economic issues. This is a consequence, but not the cause. It should be clear that there is no employment because there are no investments, and there are no investments because there is no capital. It is being kept in various passive

forms of property. Foreign investments have in most cases proven to be disinvestments, or “privatized” through a variety of sociopathological channels.

In this atmosphere of inequality, the overall damage to society and the marginal benefit to “capable” individuals have increased simultaneously, in the atmosphere of inequality in access to resources i.e, privileged choices.

### **Obstructive mechanism of the post-socialist countries**

Those who are responsible for economic development have not contributed much to it. Nomenclatures of authorities have increased the degree of dominance of politics over economy, followed by democratic rhetoric. In this way, the lobbyists created the so-called “*concealer’s economy*”, with new economic elites controlled by political elites through log-rolling and other methods. These quasi-elites, supported by the apologetic, quasi-intellectual elites, represent the main obstacle to institutional and other changes.

Instead of pursuing real institutionalization, violence against it was carried out, under the banner of spreading individual freedoms. The fact that when freedom lacks moral, legal, environmental and other social restrictions, greed becomes the boot drive for the enrichment of individuals at any cost was forgotten. Economic behaviour is controlled by subjective regulators. Distorted and reduced individualism is being imposed as a social norm (V. Draskovic and M. Draskovic 2009a, pp. 22-25).

The interests of the quasi-elite dominated over rational economic and social choices. Paradoxically, the reduction of economic theory and practice has become a basic methodological tool for the suppression of institutionalization, particularly in terms of institutional competition. What has resulted is the excessive impoverishment of the people and an enormous enrichment of the minority, the destruction of the middle layer, the concentration of political and economic power, and the continuation of the authoritarian tradition. The existence of interest-based bonds between political leadership and the newly established “businessmen” is beyond any doubt.

The consequences are incalculable. The system of social values was disrupted. Party affiliation, authority, eligibility, and belief instead of professionalism were favoured over creativity, knowledge and science. The criminalization of the economy, widespread corruption and a range of socio-pathological phenomena have flourished. The rhetoric of change has substituted for real change – civilization change, institutional change and other kinds of fundamental changes. We are sinking into apathy, a lower standard of living and growing uncertainty. A vicious obstructive circle has been created.

A consistent development strategy and a successful economic policy cannot be created or implemented in these conditions. All conceptual elaborations are being

blocked and modified through political decisions and choices that are motivated by the interests of “reformers”. Coping with economic and ideological myths and stereotypes continues to fail. The real need for institutionalization and institutional complementarities are being ignored along with the development of science, education, public interest, an effective owner as a mass phenomenon, and an efficient economy. Sustainable development is being delayed as is the creation of competitive skills and competences etc.

A detailed analysis would present an even darker image of the present and the future of the post-socialist countries. The past was also a crisis. The crisis began back in socialism (Draskovic, 2010, p. 8). The transition that took place was followed by nationalism, war, and economic blockades. Infrastructural, economic and market links in the region collapsed. The “reforms” began with an inexplicable, illegal and automatic conversion of public property into property of the state. Ownership transformation was further carried out through the reassignment of state resources and through various methods in favour of privileged individuals. Simultaneously, the dependence on foreign “teachers” and other debt increased. Gradually, Buharin’s prophecy of the modern form of slavery was being realized, as well as Lenin’s doctrine of imperialism and the Kondratjevlev’s theory of cyclical economic dynamics.

Post-socialist transition was conducted as a Velvet Revolution and as a response to the socialistic tyranny (the party, goals, slogans, promises). However, the recombination of old and new forms of tyranny that was being enforced created new and larger problems, contradictions, crises, poverty, disintegration and uncertainty. Socialist vices were newly and dangerously packaged. The common denominator of socialist and post-socialist economic and social problems is the institutional vacuum dominated by disrupted market institutional monism. Proclaimed competition is replaced with various forms of monopoly.

### **“Alternative institutions” system**

The economic development of post-socialist countries has occurred against the backdrop of a permanent conflict between the rhetoric of pluralist institutional changes and the monistic application of neoliberal recipes for macroeconomic politics. The latter was motivated by the insatiable appetites of the government nomenclatures and their immediate surroundings. It represented the main obstacle to institutional changes, in addition to the sociopathological milieu. It all resulted in a long-term destabilisation of the economic system, through a dearth of investments and an emphasis on consumption instead of production.

In literature, we can find hypothetical economic theories, which interpret and reveal politics as an imperfect process of interchange, such as Buchanan’s theory of social choice (regardless of the basic motif related to the negation of state control

efficiency), economic theory of politics, and economic theory of bureaucracy. Buchanan writes about the political market, in which greedy individuals implement their interests but are unable to fulfil them through regular market interchange. It has been proven that political decisions have a great impact on the allocation of resources. In a “natural” way, government passes into the hands of political leaders who are the representatives of small, privileged lobbying groups. Through activating the mechanism of privilege, their insatiable economic interests become fulfilled over time, and other groups get exploited (collectively alienated individuals, liberated from real and advocated economic freedoms).

Apophysis (Greek Apofazis - „negative”) transitional economies in literature are mainly associated with „*inefficient institutions*“, „*irrational individual behaviours*“, „*abnormal banking system*“, „*insufficient market discipline*” and similar. The causes are mainly searched for in some general academic statements and characteristics, lacking the phenomenological examination of the problem roots, although they are visible to bare eye and pretty much unveiled by media. By their silence and inactivity (with some rare honourable exceptions) the academic sphere acts as their spiritual accomplice in all the negativities in question. On the other hand, being loud apologists, they would provide dogmatic interpretations for anything.

Half a century ago, in a famous discussion on the publication of the political economics textbook, J. V. Stalin correctly named it with an impolite term, the least rude substitution of which would be “thrashing”. The reason for apologies at that time was fear. Today, the reason for apologies is for demonic enrichment and efforts to secure the networking and lasting power (political, economic, social, scientific and other) and an unimagined paradise. Certain economic authors of neoliberal post-socialist reforms, as a monument for their works and “success”, have built their own (private) universities and faculties (together with political mentors and messiahs), while still emphasising that they have set up their “schools of economics”.

In the post-socialist period, an alternative institutions system has been created. It comprises various sociopathological creations, a grey economy, and the continued application of wrong monistic recipes of neoliberal “shock therapy.” Moreover, it compensates for the strictness of formal rules through non-performance, corruption, attenuation of property rights, the formation of various behaviour stereotypes, and the actuation of informal behaviours (spreading institutional conflicts), etc.

The effects of the alternative institutions system have been especially visible in the grabbing privatization, which still hasn’t been completed in most post-socialist countries. And being conducted hastily and unevenly, it has resulted in the enrichment of a minority at the expense of the vast majority of common people. In addition, it is quite clear that the newly enriched privatized only what common people lost, since the wealth neither comes from nowhere nor without reason (work, knowledge, innovation, heritage etc.), nor from abroad.

The consequences are intimidating; we find them every day in media, where their real causes can be named and perceived. Institutional changes in post-socialist

countries were transitory, structurally, qualitatively, quantitatively and functionally falling behind other transitional changes, rather than being their support, stimulant, and insurer. There was a huge gap between formally established “alternative” economic institutions and economic behaviour in practice, which was far away from the norm (Draskovic, 2010, pp. 9-10).

Many market institutions were not formed, including even some of its main segments. Also, market infrastructure and culture were not significantly improved. Integral market is still a figurative noun. Many market substitutes routed mutant and pseudo-market structures of alternative type. They just imitate market infrastructure. Flea market, black, grey and quasy-market (which are in the function of surviving for most of the population), and monopolies (which are in function of benefiting minorities). Competition is reduced to the above mentioned primitive market structures. All of the market relation analyses in most of the post-socialist countries show that monopolies fully used all the chances they had.

Turning the essence of institutionalization upside down as the social-economic “technology” and using its basic characteristics (subjectivity to manipulation, lack of “*project documentation*”, delivery deadlines, and guaranteed quality of the final “product”), quasi-reformers and quasi-institutionalists, supported by the postulate of methodological individualism (also a part of neoinstitutionalism!), put the individual “efficiency and rationality” above the social. Then, by various methods and procedures, they transferred a significant part of the social (state) property into private. In this two-decade process, many of the state instituteions failed.

Neither practice nor numerous theoretic studies point to the massive economic efficiency (as the target function!), justification and consistence of the privatization that has followed the “naive” (privileged and of a dominant interest) strategy for the institutional transplantation of the allegedly western and institutionally monistic “*role models*”. The analyses of specific data on the privatization or private sector efficiency growth compared to GDP, confirms our estimate, as well as the lines by P. Murrell (1996, p. 31) saying that it is “*the most dramatic episode of economic liberalization in economic history*”.

From their position of easily gained power, the out-of-the-market enriched individuals standing among the post-socialist “reformers” today, arrogantly, vainly and unconvincingly provide explanations for the failure. Those meaning well are clear that the implementation of any kind of code of conduct can be multivariate, depending on the institutional and cultural environment factors, but primarily on the way the dominant political interests are implemented by the ruling party (or coalition). This is pointed out even within the opening lecture of economic textbooks regarding the domination of politics over economy. The “*institute growing*” strategy (Polterovic, 2001) doesn’t fit in here. On the contrary, it is being absolutely annulled by the “*alternative institutions*” system. The causes are always the same – politics and interests, and the reproduction methodology of institutional dysfunction (“*alternativeness*”), as well as paternalism, nepotism, passivity, the tradition to obstruct



legal norms and the possibilities for safe and well-organized manipulations and compensations, log rolling, lobbying, and rent-oriented behaviour, etc.

Is this why the grabbing practice and apologetic economic theory have destructively rejected Hegel's saying that institutions are the "*firm foundation of the state*"? The state was simply treated as a public property that needed to be devastated and reduced to the so-called "*micro state*," since this is the precondition for the rapid enrichment and long-term preservation of wealth. Under the stated syntagm, economic radicalism was conducted; therefore it is not a surprise to have such extremely poor outputs of the state regulations institute in the period of transition of the Balkans states and others. Following J. Buchanan, more and more agree that political competence is not regulated through the election rules and that politicians compete for gaining private rent (Earle et al. 1996, p. 632). The post-socialist states haven't been an exception.

Nominally (formally) there are democratic and economic institutions. Unfortunately, they only serve as a folding screen for exercising and fulfilling the interests of the distributional coalition, which consist of certain members of the government nomenclature and their close, devoted, and newly enriched "businessmen" (Draskovic, 2010, p. 11).

They are often said and written to be related with mafia structures. These new "elites" are not interested in the strengthening of the infrastructure and institutional power of the state, society or economy. They created the system of „alternative institutions". That way the market is being cartelized and, like a parasite, it develops back-influence on public policies, substitutes the promised competitive and integral market with monopolistic quasi-competition and illegal ways of privatizing state property and/or rent. Individuals „create" enormous wealth and enlarge it to the extent threatening to in, various ways, compel the vast majority of the population. Their networking, both formal and informal power is being replicated and it disables the realistic institutionalization, mostly determined and dosed by the ruling (coalition) parties.

The "alternative institutions" turn institutionalisation into its opposite. Instead of stabilizing society, they have destabilized it; instead of incrementally creating institutional changes, they have created "alternative" quasi-institutionalisation. The domination of political (party) interests has functionally subordinated all economic institutions, especially in terms of the allocation of property rights. All significant economic processes and policies are being controlled. What is being enforced is the super ordination of "alternative" informal codes of conduct over formal institutions, with parallel processes of great interests. The economic imperialism of neoinstitutional theory has been literally copied and pasted into post-socialist practice.

There is no doubt that the economic institute of the state government during the transition period was an "alternatively" directed instrument serving certain beneficiaries (the privileged ones), while performing its patronizing and redistributive role in a vulgarized way under a form of neoliberal strategy.

## **Priority of pluralistic institutional development**

Totalitarian party control rooted in a governmental structure that rests on the principle of log-rolling, narrow lobbying interests, and subjective behavioural regulators, disabled institutional control and adequate competition. The privileged “players” and their strong “connections” dominated over institutions (rules of the game). It deformed and reduced the choices of economic agents, the economic reality, and the institutional structure. The adoption of certain measures of economic policy was often influenced by powerful administrative and bureaucratic groups.

Violence against institutionalization, rather than real institutionalization, was carried out. Institutional changes are significantly behind other transitional changes in terms of structure, quality, quantity, functionality, and time. The strategic importance of real institutional change and its primary role in relation to economic policy was neglected, especially in relation to self-sufficient, institutionally unfounded neo-liberal economic policy, which did not solve the key problems of transition over a long period of time. The priority of economic institutions in relation to economic freedoms was also neglected. Because they stand for a direct opposite of unlimited political power, institutions stimulate the creation, motivation, initiative, entrepreneurship, interests, and healthy competition, while disabling the institutionalization of privileges and procedural forms of domination and totalitarianism (Draskovic, 2003, p. 30).

Key control and other instruments of socialist state regulation were rapidly destroyed, whereas new instruments were insufficiently formed and they not adapted to meet market principles and requirements, even in their reduced form. Rapid and non-selective removal of state property and its conversion into private ownership has further weakened the institute of state regulation. The main levers of the economic system were reduced while their un-systematic features were increased; the economy was criminalized and many forms of quasi-institutionalization were expanded. Corrective activity of state regulation “from above” is absent. This should accelerate the development of other economic institutions (the market regulation and property rights), which were separately developed in monistic and metastatic fashion. The motivations and entrepreneurial initiatives of privileged individuals were cultivated.

Privatization was not conducted in accordance with certain legal and economic criteria; therefore it did not create the conditions for increasing economic efficiency and freedom. In fact, privatization usually presents insufficient conditions for economic efficiency because its main promoters are competition, management improvement, and the efficient and flexible regulation of the state. Competition is reduced to primitive market structures whereas the monopolies take advantage of all the opportunities made possible for privileged individuals.

Transition dogmas replaced the socialist ones and altered value criteria, which ranged from “shock therapy” (through the theological replacement of goals of economic growth end development with the means of liberalization, privatization, de-

mocratization, institutionalization, and stabilization) to the socio-pathological demagoguery and rhetoric, which were used to create the alleged real institutional changes (Draskovic, 2010, p. 12).

Economic institutions have been replaced by pseudo-forms (imitation and improvisation), such as meta-institutionalization (the creation of over-institutions and institutions of total control), institutional monism (“messianic” uncontrolled market without parallel formation of complementary institutions), and quasi-institutionalization (paternalism, monopoly, lobbying, social pathology, grey economy, annuity-oriented behaviour, naturalization, street currency conversion, dominance of politics over economy, predacious privatization – “pocketisation”, privileged “*newly established entrepreneurs*” as alleged “*efficient owners*” etc.). The effect of these obstructive factors in the period of post-socialist transition was synergistic and destructive.

Pseudo-institutional violence (political, economic and party) of an organized minority (who can do what they want, where they want, when they want, and how they want) over a disorganized majority, verified the non-market appropriation of enormous proportions. Therefore, some authors identify neoliberalism with neodarwinism (Kulic, 2000, p 867), even with neoimperialism.

Institutional synergism (pluralism) is the only real, possible, and proven condition and priority for economic development, based on real (rather than rhetorical) economic freedoms, protected property rights and contracts, entrepreneurship, and healthy market competition. It allows the individualism of all, mass economic freedom, private property and efficient entrepreneurship. Because the goal of economic institutions is to serve all individuals in the society (not just the privileged ones), individual and collective are inseparable components of pluralistic institutional arrangements and the overall system of contemporary developed economies.

In the transition countries, democratic institutions exist nominally (formally). They sometimes serve as a cover (valve) for the expression and realization of the interests of distribution coalitions, which consist of individual members of the old nomenclature, newly composed businessmen, and oligarchy and mafia structures. These new “elites” have interest not in strengthening the institutional state power and democratic procedures, but in preserving the monopoly positions, non-economic privileges and various pseudo-market structures. They use a whole variety of elements of social pathology from lobbyism, log-rolling with a ruling nomenclature and asymmetric information through occupying strategic positions, to the use of various forms of power and networks of informal groups. In this way, their annuity-oriented behavior is being reproduced.

## **Institutional nihilism and vulgarized neoliberal (nihilistic) ideology**

The most consistent positions regarding market self-sufficiency and spontaneous “messiahship” have been held by the neoclassicists and quasi-neoliberals for decades. They have been writing that all economic problems shall be resolved by price, competition, private property, efficient owners, and entrepreneurship.

What prices? The monopolistic ones? Non-market purchase of factories, land, businesses, facilities and other entities at extremely low prices dominated. Later, these same entities were sold at much higher prices, according to the daily media reports, despite the law, which requires that privatized assets be sold only at the market price of that time. However, in countries where institutional nihilism rules, few comply with the law.

What competition? The monopolistic ones? How can a robbed and impoverished nation compete with rich tycoons? What private property? The one privatized by robbing?

Who are the efficient owners? The privileged ones, enriched by robbing the state property? A huge amount of capital has been converted into “dead” assets, which are not being transformed into investments, new factories, businesses and new possibilities for employment.

What entrepreneurship? Privileged? And where is the market balance? However abstract it may be in terms of terminology and theory, it still personifies an economic harmony, and not the existing anarchy reproduced for years and decades.

What are the (secret, tycoon) contracts like, through which the people, economy and state are being impoverished, for the benefit of the undersigned - domestic “elites” and foreign, mainly unknown investors? And how much social pathology do they contain?

Where is the welfare and justice that must be provided by the state, according to the institutionalists? In particular, where is the efficiency of the market? Where is the state as a guarantor of economic freedom and equal implementation of formal rules of economic game?

Let us remember what the Nobel laureate D. North (1981, p 32) wrote three decades ago: *“The dominant goal of the capitalist state is the construction of such institutional structures, especially the structure of ownership rights, using which it achieves maximization of income (social welfare- remark by Authors) and a high degree of freedom”* (through minimization of costs for specification and protection of property rights - remark by Authors).

Where are those economic freedoms?

Even if we ignore economic functions of government (in the part of macroeconomic policy), we must wonder: why has its legal function failed, without even being

questioned by anyone? It is clear that the political decisions influence the economic decisions that were focused on maximizing personal advantage of privileged individuals.

Neither the fiasco of the market, nor all the strains of the market, or even many economic crises that build upon each other, or even fatal consequences of the transition are sufficient to understand the illusion and deception of institutional market monism. Consistent application of even that part of the state regulation referring to the rules of conduct (probably equal for all?) would be sufficient to eliminate all irregularities, negativity and deformation that marked the “rule of law” and “entrepreneurship policy” of neoliberal “reformers.”

But let us not forget, those very rules are the institutions themselves. Code of Conduct is the synonym for institutional pluralism. Here lies the main methodological paradox and essence of fraud: the code of conduct should exist, but the government that controls it tolerates (and allows) departures from it to some (the privileged ones). The above paradox gave birth to a new (logically derived) paradox: An order has been created (predatory model) in which none of the institutional monisms acted consistently: neither the market regulation, nor government regulation. The transitional logic of social changes has favoured the establishment of this model, dominated by the formation of recombined meta-institute of completely controlled by the ruling nomenclatures.

The neoliberals that constantly refer to F. Hayek are forgetting that he has clearly written about the necessity of acting according to the rules, because without them market coordination presents a hardly attainable process. Among other things, it proves neoliberal arbitrariness, bluff, fiction and neo-bolshevism (in terms of: saying one thing, thinking something quite different while doing the third), which are one-way directed towards the achievement of personal material interests. All economic theories<sup>2</sup>, in this way or another, refer to adherence to certain rules, linking economic coordination with them.

Post-socialist neoliberals are referring only to phrases. And to the establishment of the total control rules by the privileged non-marketably enriched “elite”. Unfortunately, this “order” has been functioning for two decades. Within this order the

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<sup>2</sup> “Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defence, police and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit” (Harvey, 2005, p. 2).

individualism of the privileged substituted mass individualism (of all) - in all important segments of society and economy: the economic freedom, entrepreneurship, private property, etc. In this way, the choice of all has been reduced to individual choices. Can the concept of the freedom of choice be reduced to the freedom of choice of the few, whoever they are? This is only possible in the chaos of disrupted and destroyed value criteria. A Comparison with developed economies and societies is the best indicator of transitional institutional nihilism, which is formed under the dominant influence of vulgarized neoliberal (nihilistic) ideology.

The modernization of every transitional economy has its own features and specific development problems and priorities. Their main similarities would be: a) long-term and inertial reproduction of crisis development, and b) conflicts between formal and informal institutions as their own generator of economic and social crisis.

There is one mutual element that each post-socialist economy will, sooner or later, have to change. It is the universal mechanism of pluralistic institutional coordination. Many authors rightfully emphasize the significance of coordination as the process of mutual harmonization of certain economic institutions of market regulations and state regulations. These authors directly advocate for equality, inter-conditionality and mutual effects of economic institutions as constituents of the mutual economic mechanism of coordination and regulation. In other words, they correctly detect the imperative of institutional pluralism for institutional monisms.

The findings of economic science and the reality of economic crisis have shown that it is inevitable to have regulation and control over market mechanisms (i.e. the institutionalization of the market as economic institution) if you want to avoid serious economic problems, crisis, unemployment, impoverishment and uncertainty (i.e. reduce the consequences of uncontrolled market actions). With an organizational, institutional and normative vacuum in the post-socialist countries, it has not been possible to set up efficient economic institutions. The government structures chose to recombine institutions, which enabled the establishment of various forms of quasi-institutional relationships. Focusing on institutional monism, the narrowly privileged, and the entrepreneurial initiative of rare individuals has led to immeasurable and long-term crisis consequences.

The story of pluralism (of interests, politics, democracy, freedoms, media, etc.) has been replaced by the materialistic cynicism of the newly-composed "elites", party centralization and nearly total control (over political and economic processes), which has enabled privileges, the enrichment of an organized minority, and the impoverishment of the unorganized majority. The story of institutionalization has turned into the opposite of institutionalization. The natural environment has been destabilized instead of stabilized. Instead of incremental institutional changes, these changes have rapidly produced growing insecurity, social pathology and crisis.

Institutional innovations are, when it comes to timing, structure, quality, quantity and functionality, undeveloped compared to other transitional changes, instead of being their foundation, stimulant and a guarantee. Only institutional innovations

can neutralize party-lobbystic structures and can activate missing control mechanisms, rule of law, economic freedoms and efficient instruments of economic policy. Institutional innovations imply civilizational norms, placing economic behaviour in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favour healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market - yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behaviour, institutional standards, protected and well specified property rights.

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# NEOINSTITUTIONALISM, NEOLIBERALISM AND GLOBAL FINANCIAL CRISIS

Mimo DRASKOVIC and Veselin DRASKOVIC

*Upon the economic institutions and their importance for the economical development, it has been written enough with an aim of understanding nonalternativeness and priority of their synergetic and pluralistic functioning and strengthening. The large disproportion between the theoretical knowledge and rhetoric about the institutions, from one side, and their weak practical application and slow development in post-socialism countries, from the other side, can be assigned to the interest motives of economic politics creators and their lobby's circles, for whom the regulator "game rules" are not suitable.*

*The application of neoliberal monistic institutional receipts in the country of their origin, and then on the global level, has showed their dangerous and destructivity for the economy. The paper is based on the hypothesis that the immediate overcoming of all quasi-institutional monism forms (among which is neoliberalism), which have dogmatic, totalitarian and anti-development character, is necessary, since it is the condition for application of real and pluralistic institutionalization as the only reasonable alternative in creating economic politics and economy development.*

In economic science, there has been a phenomenon (which has grown into a fashion of many economic researchers), that things are not called the real name. In this way, the vicious circle of *apologetics* was being created for centuries, which often overlapped with *vulgarization* (more conscious and interest-oriented than unconscious and altruistic). Scientific directions and their impact on the official economic policy changed. What historical coincidence (and irony): in 1873, the era of *laissez-faire* liberalism ended, and in 1973, 100 years later, a period of state interventionism ended, whilst a period of neoliberalism began. The contemporary period is characterized by a devastating financial and economic world crisis, in which state interventionism is trying to save the shaky economic foundations built on neoliberal recipes.

There is “*no economic theory for every life situations*” (J. Hicks), economists “*often made mistakes*” (Ashley) and do not have a “*single opinion*” (J.B. Show), but there are some proven economic theoretical knowledge and behavioral rules that are not disputable. One of them is *institutional pluralism*.

Schumpeter argued that economic theory suffered from *Ricardian Vice*, because it was formulated on abstract assumptions, without an empirical basis. (“*Economic phenomena are of such a complicated, involved nature that farreaching abstractions must be used at the start merely to be able to survey the problem*” - Abraham Wald). Today it can be added to the so-called *Krugmanian vice*, because there are theories that describe reality better than standard theories, however they are not used in practice of economic policy (e.g. neoinstitutional theory). Add to this the “*opportunistic ignorance*” (Myrdal) and the *interest orientation* of the economic policy makers, and it is clear how and why different economic theories are used for different purposes depending on the political (apologetic) criteria. Of course, there is also selective application of theories (a rule of double standard) - one for internal and the other for external use.

Let us remember that liberal and Marxist economic theories are, in fact, specific versions of Rickardo's abstract system. According to Marx, the state should disappear, and according to neoliberals – the state should be *micro*. However, history shows that in the conditions of the great world crisis, theoretical economic recipes are ignored, putting forward the *state economic interventionism*.

### **Elemental institutional modeling**

It has been proven that the performance of economic activities is more organized and more efficient in precisely defined conditions that determine them. Institutions are a set of limitations (rules, mechanisms, and behavioral norms) created by a man in order to regulate mutual political, economic, and social activities. These are harmonized and generally accepted models that regulate human behavior as a means of adapting to changes, minimizing entropy, risk, and uncertainty. They are regulators and coordinators of economic activities that are constantly repeating, and they contain rules of conduct and mechanisms that ensure their realization.

Figure 2 shows the modeled significance and scope of control required in a developed and underdeveloped institutional environment. Evidently, the level of control is much greater in an underdeveloped institutional environment. Each of them should have flexible and stable mutual relations and positive feedback between all economic institutions. That relationship must be characterized by institutional synergy and institutional competition. It is very dangerous to force the development of individual institutions, due to an unwanted and counterproductive institutional monism as a form of quasi-institutionalization.

Institutional matrices of the state are mostly determined by the parties in power. Distribution coalitions cartel the market and parasitically develop the influence on public policy; they substitute the promised market with monopoly quasi-competition and illegally acquire the state property and/or rent, creating enormous wealth. Democratic institutions exist nominally (formally), and they serve only as a cover (a disguise) for expressing and realizing the interests of the distribution coalition. The new “*elites*” have no interest in strengthening the institutional power of the state.

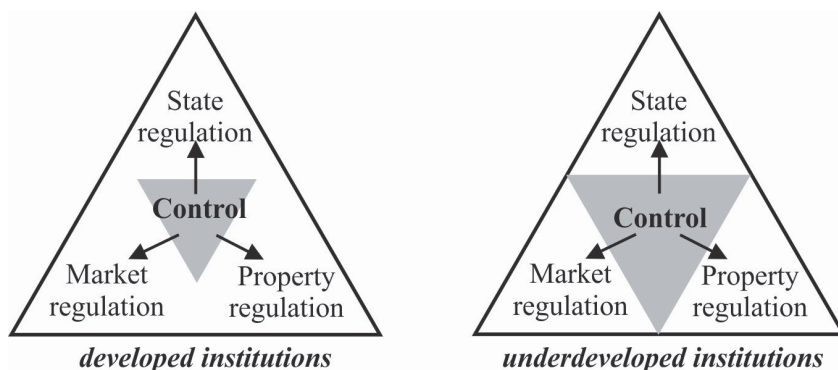


Figure 2. **Importance of control in a developed and underdeveloped institutional environment**

Author's creation

Figure 3 shows the various negative impacts on the economic institute of state regulation (party, reduction of the rule of law, lack of control, institutional vacuum, etc.), which lead to the *state regulation fiasco*, and consequently to the restriction of economic freedoms. Regardless of the methodological inconsistency of the general neoliberal story about the so-called “micro” state (whether it is a *social* state, which would mean social inequalities, or the rule of law, which would mean a minimum rule of law and a reduction in economic freedom, or a *political* state, which would mean the minimum of parliamentarism and democracy, or an *economic* state), if economic aspect is the only thing considered, clearly there must always and every-where be a state regulation of macroeconomic instruments, which represent the appropriate four forms (instruments) of economic policy.

Figure 4 shows various negative constraints that affect the economic institute of market regulation and distort its effect. It also presents the consequences of a possible lack of institutional control, which leads to the market fiasco, and thus the erosion of economic freedom and healthy competition. All this together leads to the deformation of all elementary market functions, which automatically causes the crisis of the economic system and its complicated functioning.

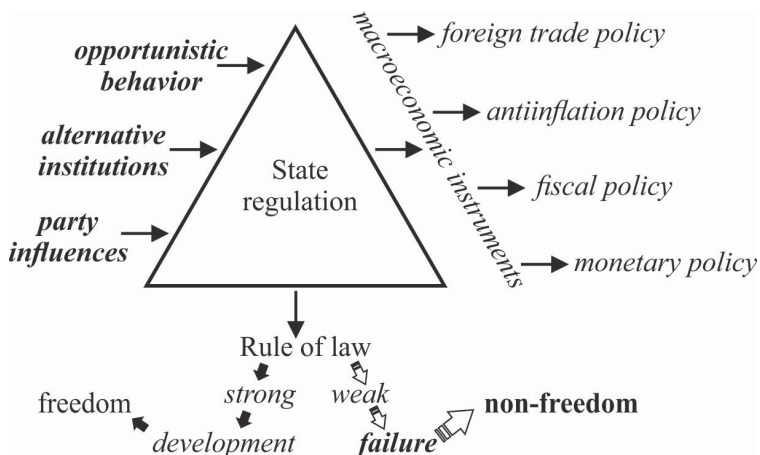


Figure 3. **Various impacts on state regulation and basic essential macroeconomic instruments**

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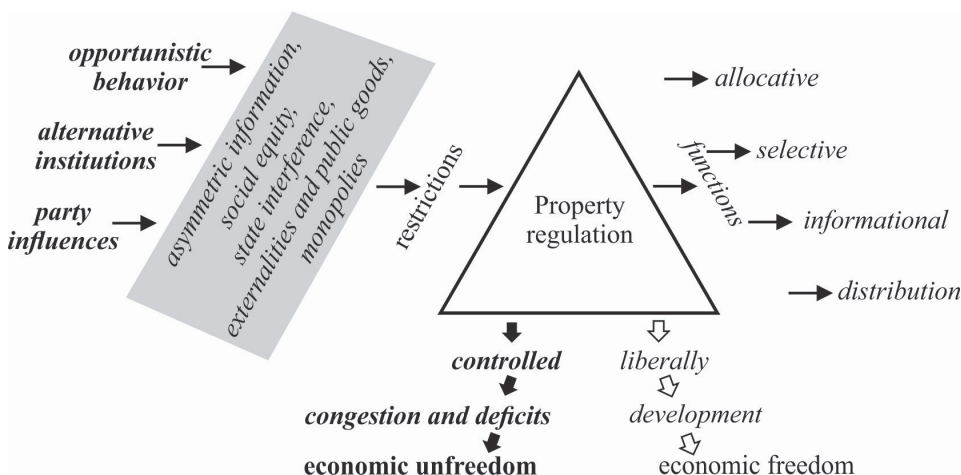


Figure 4. **Various impacts on market regulation and basic market functions**

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Figure 5 shows negative effects of the deformed, unregulated, and uncontrolled property system on the realization of the privatization process (which can take rapacious characteristics and turn into theft), demotivation of economic subjects for efficient business, reduction of all property functions, inefficiency of the ownership structure, and degradation of exclusivity, universality, and portability regarding property principles. All this together has a negative impact on the redistribution of ow-

nership rights, the absence of required ownership right specification and their effective legal protection. As a consequence, there are various and potentially devastating impacts on the economic system, which significantly contributes to its crisis and economic depression.

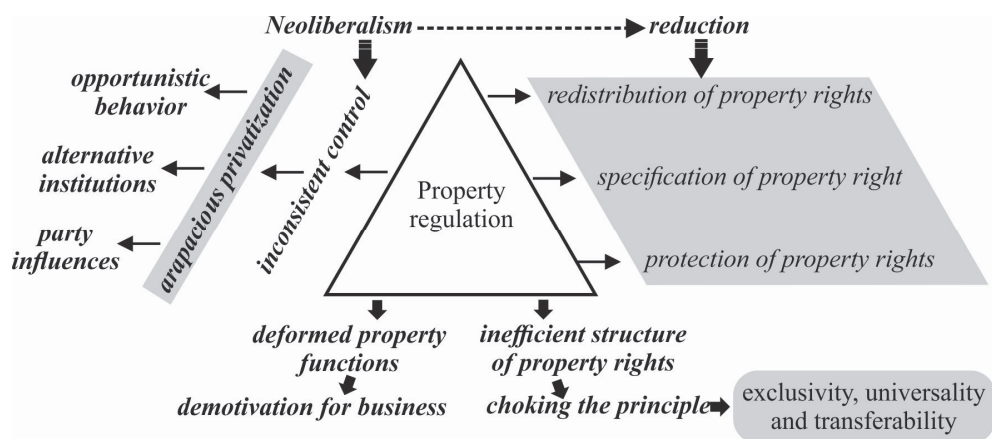


Figure 5. Negative impacts of an uncontrolled property system

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### Institutional monism as the main cause of the global economic crisis

The partial and dysfunctional abolition of the institute (deinstitutionalization), practically began in the USA in 1971 by the unilateral *cancellation* of the direct international convertibility of the US dollar to gold. This process was continued in the early 1980s by *financial deregulation*. This enabled a mass creation of hedging (cover), and then increasingly complex derivatives, which have been wrongly and mainly speculatively used (through exchange rates, interest rates, stock prices, and loans). Even derivatives of derivatives were created. The risk was chain transferred, secured by - *virtual financial engineering*. Serious regulations, controls, directives, supervision, and transparency - did not exist. Consumption was largely forced by loans without provision of funds. Data show that the financial sphere was nominally 40 times higher than the real economy (GDP), of which the foreign exchange markets were 10 times higher, and the market of derivatives were 30 times higher.

Neliberal globalization has enabled or *imposed* these speculation. Why? Due to the maximum concentration of capital, because it's a fundamental and blurred credo of neoliberalism: 95,000 people in the world own \$13,500 billion! This is more than a quarter of the world's total wealth produced in 2007. Therefore, the redistribution of wealth (income) has remained the main tendency and the fundamental problem of the economy!

Why are institutions (or institutional monism) the cause of the global financial crisis? Because there was enormous and uncontrolled spending, banks did not control credit operations, investor firms worked without regulations, mortgage loans were given without any cover, company balances were falsified, safe pension funds were replaced by direct investments on stock exchanges... Economic and institutional dialectic changed - instead of good “*rules of the game*”, “*good players*” dominated. All this was followed by business immorality. Nobody cared for Gerard Cavanagh’s words: “*No human institute can exist for a long time without consent of what is ethically right or wrong*”! Individual freedom seen as rational economic behavior, which, in the interpretation of neoliberal thought corresponds to market freedom, is a monistic-utopian vision, because, evidently, there must be limits in terms of legality, morality, non-harm to others, etc. There were no such *restrictions* (institutions), therefore the financial transactions went spontaneously, out of hand, accelerated by the interests of the frivolous and unscrupulous individuals and groups.

The most dangerous thing happened - the malignant development of individual (even virtual) institutions, without respect for the institution of control in their own institutional (market) environment, but also in the overall institutional environment (state and property). And again: why? Because it was dominated by neoliberal economic motivation, characterized by many as an *interest greed*, as it turned into ominous elitist instinct (driving force) for the quick realization and increase of wealth, and consequently of power, which greatly gravitates towards *allmightiness* as the institution of *total control*!

Since the ideology of totalitarianism and domination is a common denominator of all imperialistic forms, a new type of post-industrial-neoliberal-virtual imperialism has been formed. Its essence are pyramidal financial and technological-organizational dependence and appropriate exploitation. Preceding types of *imperialism* were colonial (geographic) and neocolonial (industrial). In that context, the neoliberal type can be characterized as *postcolonial colonization*, although it re-sembled pleonasm.

In this way, two rigid dimensions of globalization become much clearer: *geopolitical* - based on imperialist motives and interests; and *exploitative* - towards underdeveloped countries and pauperized national masses. Viewed through the prism of Lenin's teaching about “*imperialism, as the highest stage of capitalism*” and Kondratieff’s interpretation that “*capitalism is eternal ... through cyclical development ... of long and short waves*”, the real world image gets a clear dimension of imperialism. This may be the right solution for conflicting opinions on the existence of formation categories in capitalism and socialism, that is, for the relativization of institutionally overstated formational categories of economic systems (if a mixed economy is not a sufficient proof). Here may be used the Chinese saying: “*It doesn’t matter if a cat is black or white; as long as it catches mice, it’s a good cat*”. After all, capitalist, socialist, and post-socialist imperialisms are not negligible, however, in economic terms they must be considered globally.

How can this vulgar and rugged practice on the US real estate market be justified and explained, for it allows the granting of loans to people without income, jobs, or property? Those are huge profits with low risks or the absence of state control in financial systems. Irresponsible market behavior is partly accurate but incomplete diagnosis. Fiasco was not only experienced by the economic institute of market regulation, but also by state regulation and corporate-state control. That is why neoliberalism (as institutional monism, i.e. “*market fundamentalism*”) is constantly opposed to neoinstitutionalism (as institutional pluralism).

Was the crisis triggered only by “*people's infatuation*” due to interest greed, or a *designed strategy of capitalist development and expansion*, by which additional redistribution of wealth is realized in favor of already rich, privileged, and greedy, both within the capitalist “center”, and in relation to the “periphery”? Was all this scenario possible without participation (and approval, act and omission) of state people and bodies, and even of almighty state in which all that started and done? It is hard to believe that it is only about the stochastic-mathematical calculations of virtual reality by isolated individuals (financial “experts”), without the knowledge (and help) of state people with imperialist and neocolonial tendencies for domination, unequal exchange and distribution. In this case, it is difficult to separate an error from an intention of those who distinguish the concepts and methodology of financial and credit economic behavior, not to speak of a simple distinction between the concepts of morality and immorality, responsibility and irresponsibility, and Pareto efficiency.

It is not difficult to distinguish a legally defined economic freedom from a freedom of action which, in the background, has amoral, criminal, monopolistic, sociopathological, and other non-institutionalized behavior. Rapacious regime of pyramidal interest has ruined the banking, credit, mortgage, and monetary system, which will significantly destroy the investment and economic system by a chain reaction. The “Innovative” neoliberal formula for foreign uses was finally applied in the homecountry of “messianic” recipe, and the results are catastrophic, simply astounding. Time will show who bears the expenses of the programmed financial madness. Since the US Constitution clearly states that the state owns the banker, the questions arise: Why were credit-banking flows turned into monetary, in order to overrule them, and to get rid of the control of those whose job was to control them?

How to believe that such a strong government (the US government) from the beginning of the process did not know about cheap loans without coverage, control, and regulation, and possible consequences of the use of the most risky financial instruments? Was there a clear reinsurance limit of cheap loans for hypertrophic consumption and the making of “*soap bubble*”, based on mortgage, financial, commercial, construction, and fund inflating prices when buying real estate and various other luxury and expensive goods? How was it allowed for investment and pension funds and other non-standard lenders to take over the classical role of banks and finance overrated mortgages, with a low percentage of reserve security for issued loans? Answers to these questions confirm the above doubts.

Parallely with financial virtual spirals, asymmetric information, and appropriate risk underestimation has been acting the factor of exponential *hyperproduction of technological innovation*, whose life cycle is constantly and rapidly reduced, leading to market congestion, large transaction costs, and frequent impossibility of realization, which volens-nolens provokes the inability to return loans.

The contemporary economic crisis has a systemic nature, combined with a cyclical collapse of the so-called Kondratieff's "long" waves, which is an event that repeats for the fourth or fifth time in the last two centuries. Several "short" cyclical waves and financial crises have been registered since 1970 to the present. The contemporary crisis will be long-term, global, and probably devastating. Estimations that the peak of the crisis will be in the period 2009-2010, and that depression will last until 2012-2013 are volatile, because, its flow will depend on many impact factors which cannot be accurately predicted. Only devastating effects of the crisis can be predicted: long destabilization of the stock markets, huge bank losses and liquidation of many, inflation growth, and transition to stagflation, significant increase in capital, and decrease in aggregate demand, low industrial production and trade, high unemployment, growing interventionism and naturalization of the economy, accompanied by an increase in monopolies and the like.

The way out must be sought in industrial innovations, application of alternative energy sources, revival of production, strict control of financial operations, formulation of a new development paradigm, much greater institutionalization, solving global problems, and increased economic discipline (rationality). A list of necessary measures is not finished, because, among other things, the way out must also be sought in changing the mindset and behavior of the rich and powerful, in economic behavior reduced to realistic, moral, civilized, and institutionalized framework, in creating a competent economic theory and appropriate economic policy, which will honestly (and not rhetorically) favor market competition, while respecting the given frameworks and relativizing the market constraints. All this excludes mythology, ideology, dogmatism, and economic clockotrisism based on rhetoric of interests and double standards.

### **Neoliberalism vs. institutionalization**

The practice of Latin American, Asian, and most post-socialist countries has shown the illusory of imported neoliberal macroeconomic recipes in conditions of inadequate and pseudo-institutionalized microeconomic reality. The contemporary global financial and economic crisis has additionally and convincingly proved their devastating effect, even in the country of their theoretical origin. The mystical faith in magic self-regulating power of the market, in transparent-monistic and interest-oriented enthusiasm of inconsistent neoliberal models of economic policy, is lost. The idea and myth of an *uncontrolled and almighty market* (neoliberal *perpetum*



*mobile*) came back as a painful and sobering boomerang. Everything private is good, and everything public is bad for the creators of the above-mentioned model, who for three decades recommend to the world what they do not apply on themselves.

The vulgarized model of neoliberal economic policy, which has been forced in transitional countries, does not suit the theoretical model of the “full-blooded” integral market and the Hayek-Friedman ideals.

Utopian vision of the free market and the alleged “pure” competition assumed that such an environment “*naturally*” corresponds to individual freedom. But they forget the fact that when freedom does not have moral, legal, ecological, and other social limitations, *greed* becomes the driving force of individuals to acquire wealth at all costs. Such perverted individualism is imposed by some “*skilled and capable entrepreneurs*” (the so-called “*efficient owners*”) as a social and civilization norm. Clearly, such a reduced individualism (of privileged) has become the ground of formal institutional monism as a theoretical and ideological basis of economic neoliberalism (which I have often called economic clockotism, in the sense of “*selling snake oil*” without any consequences for sellers). It has been and remains in direct contradiction with *institutional pluralism*, and hence with real institutionalization. Here should be sought the *main cause* of the creation and ossification of a wide social-pathological braking mechanism, which still represents an insurmountable obstacle to the strengthening and the development of economic institutions in post-socialist countries.

Total distrust in state regulation is neither logical nor productive, nor is it appropriate for the growing information, manufacturing, financial, and civilization integration in the 21st century. Controlled and interactive functioning of all economic institutions is an imperative of time that has no alternative. But obdurate neoliberals (quasi-reformists) are still orchestrated defending this inconsistent platform of devastating economic policy. Ironically, they are a part of governments or nearby bodies, hindering real institutional change. Because they are best suited in the game with privileged rules of conduct, in a terrain that is monopolized on one side, which is a contradiction to institutional behavior.

Prophetic words by K. Polanyi in 1944: “*The road to the free market was opened and kept open by enormous increase in continuous, centrally organised and controlled interventionism*”, were not enough. Devastating results of applied neoliberal model as a wrong “*economic wisdom*”, which caused misery in most post-socialist countries (ruined economy, rapacious privatizations, pauperisation, apathy, and stratification of the population, unemployment, decline in production, growing crisis, shadow economics, criminalization of the society and economy, the deficit of the rule of law, etc.) were not enough. The latest confession of J. Williams, a supporter of the Washington Consensus, on the limitations that J. Stiglitz called “*market fundamentalism*”, was not enough. This leads to the conclusion that the *main cause* and barrier of institutionalization is in the political system sphere (nomenclature structures of government and their lobbyist connections).

In this context, this is an opportunity to mention the propagation of the so-called “*mini state*” idea. Instead of commenting, analyzing, and characterizing this idea, we think that in order to prove its sustainability, it is sufficient to raise an elementary methodological question: In what sense should the state be “minimal”? In economic sense (reduction of macroeconomic instruments), or in legal sense (reduction of the rule of law), or in social sense (reduction of social equity), or in political sense (reduction of democracy, etc.), or in limitation of the state sovereignty under the rush of globalization, etc.

Of course, we are familiar with the theoretical concept of “mini state” which “*ensures a stable legal and regulatory framework, so that individuals can deal with their business without excessive interference with politics*” (Cakardic, 2006, 849), starting with traditions of Locke's liberalism, in which he develops the idea of society with an emphasis on individuals who are as separate from the state as much as possible. Are these idealistic concepts achievable in the conditions of many vicious human interests that jeopardize the general interests and do not fit into the Pareto principle? No serious person can deny the consistency of the preoccupation of a liberal democratic tradition - a democratic state as an *institutional mechanism* that articulates private and general interests in society. Post-socialist practice barely fits into the above model. When one says, using liberal jargon, that the state does not have higher goals than the welfare of individuals, it may be thought of all individuals, and not just the privileged ones?

One should not forget J. S. Mill's question about the balance between *individual independence* and *social control*, nor R. Nozick's correct understanding that the “minimization” of the state is justified only when it is “*limited to narrow functions of protection against force, theft, fraud, and breach of contract*” (according to: Cakardic, 2006, p. 856). Post-socialist practice should be viewed through the prism of these ideas.

This subheading can also be interpreted through the phenomenon of practical individualism of rare individuals, who fool the masses using “*pluralistic rhetoric*”. Let us remember that *pluralism* was the basic *rhetorical motto* of transition reforms, when the people were promised *masseveness* (of private properties, economic freedoms, entrepreneurships, effective owners, better lives, etc.). It has long been clear to everyone that these were just neoliberal fairy tales based on the principles of dual standards.

Neoliberalism, as a philosophy of *methodological individualism*, has proven to be extremely successful in shaping the wealth, power, and economic freedoms of privileged rare individuals, often identified with economically efficient owners by alibi-economists. Since the enrichment process does not have innovative, productive and/or hereditary character, only extremely *rapacious*, it is clear that the minority got what the majority and/or the state lost. In addition, one must bear in mind the mysterious phenomenon of the rapid velvet revolutionary transformation of social property into the state property. During the incredible propaganda of individualism

and institute (which *per se* hides in itself the profound methodological and practical contradiction, visible to the eyes and easily proved by institutional analysis), there has been a drastic reduction of *individual choice* in mass proportions and quasi-institutionalization as the dominant a long-term hindering transition mechanism.

In the practice of many post-socialist countries, a specific hindering transitional model “23d” (see p. 53) was formed, composed of numerous *deformations* (market relations, economic environment, competition, motivation, economic behavior, etc.), *deficit* (rule of law, institutionalization, motivation, quality of life, economic freedom, competition, etc.), destructiveness (economic policy), *differentiation* (population), *disproportion* (development, resource, etc.), *domination* (privileged individuals), *discrimination* (human and economic freedoms and rights), *dictation* (monopoly – economy, party, etc.), *determination* (party-political), and duality (application of double standards) – Draskovic, 2007a, p. 93.

With a three-decades delay, J. Williamson, an advocate of the so-called “*Washington Consensus*”, acknowledged the limitations of his own recipes. Even the passionate liberal P. Krugman (the Nobel Economic Prize 2008) said: “*Market freedom sometimes goes in a completely wrong way ... and leads to scandalous meltdowns.*” The boundless neoliberal dynamics of deregulation through the various instruments of “financial gymnastics” broke the real limits of economic reality, and the moral and institutional conditions of rational human behavior. These conditions can be called regulators, stabilizers, institutions, norms, etc., but they cannot be based on an ideological-interest matrix, a shallow rhetoric, and/or a fictitious mathematical-virtual methodology.

Many forms of neoliberal deregulation have led to the current global financial and economic crisis, which demystified capitalism “*without alternative*”, “*the end of history.*” In this way, the essential doctrine of a neoliberal economic policy was completely dissected, based on the theoretical postulate that markets are the best way of allocating social wealth and resources. Of course, it is clear that the crisis does not mean the end of capitalism, nor the hasty invention and the application of some recipe which is radically “better” than neoliberalism. Modifications and combinations of previously known recipes are the only realistic, and their dosage of will be variable and adapted to the cyclicity of economic indicators, respecting the positive effects of all economic institutions.

Neoliberalism, as a doctrine, philosophy, theory and practice (economic policy), has produced dramatic consequences for mankind over the past four decades via two dominant parallel processes of globalization and post-socialist transition. Due to the application of quasi-institutional violence (political and economic), which verified non-market appropriation (in vast proportions) by organized minorities (which can do what they want, where they want, when they want, and as they please) over an unorganized majority, some authors identify neoliberalism with *Neodarwinism* (Kulic, 2000, pp. 867).

The reformist rhetoric on human freedom (economic and other), free trade, and democracy was and remained just an *illusion* and a *promise*, due to the inevitable stocks of inequality, poverty, hunger, lack of well-being, underdevelopment, and other numerous global issues caused by unhealthy macroeconomic recipes (such as “shock therapy”, rapacious privatization, etc.). One can rightly raise these questions: Are there any limits at all (moral, human, civilization, and other)? What does the concept of freedom include? Does it include freedom of velvet robbery, a “*democratic*” well-founded establishment of a totalitarian power system at all costs, the application of “recipes” inherent to the system, which all together resembles “*new barbarism*” and the corresponding imperial “culture”?

Neoliberal recipes from the beginning to the present have resembled an elitist and greedy *concept of power*, which aims to turn into omnipotence, i.e, total domination (of rare states, parties in power, and privileged individuals). It is a new formula of capitalism for keeping and expanding the hegemony of dominant states, governments, corporations, and private property of the powerful. All this means that the crisis economic problems created by neoliberalism are not merely of economic, but also of moral nature. The neoliberal virus of simultaneous double standard may be the best example: prodigality of developed ones, and survival of underdeveloped ones. The gap between the rich and the poor drastically grows: the richest fifth of the world's population owns 82.7% of the world's total wealth, and the poorest fifth has only 1.2%. Even in the United States, according to Nobel Prize laureate Paul Krugman, in the period 1970-2005, 0.1% of the richest people have increased their income five times, while average wages have been decreased by 12%.

*Economic neoliberalism* doctrine was the ideological foundation of globalization and (significantly) of post-socialist transition, based on the paradoxical and contradictory principles of the minimal (very limited) state and the maximal (unlimited and uncontrolled/self-controlled) economic freedoms and the private property rights. In the so-called “*mini state*”, relations between the minority of privileged, privileged and organized monopolists (“efficient entrepreneurs”) and majority of the poor, exploited and unorganized individuals are complex. Their only function is to guarantee “fair relations in an unlimited free market.

Deregulation is imposed by various methods as a non-alternative variant, where private greed is supposedly the best motive for entrepreneurial ambitions and innovations. Categories and institutions of justice and trust are ignored, as well as the property origin and control. The world needed a major global financial and economic crisis to get rid of *neoliberal improvisations*. Its consequences are unimaginable and endless. To great supporters of neoliberalism, certainly driven by interest-lobbyistic motives, even drastic measures of state intervention are not enough to at least question the correctness of their own recipes, which have proved to be devastating for the vast majority of the population, from the very beginning until now, and for the whole humanity.

However, the economic institute for market regulation was not the only one that failed - the state regulation also failed, as well as the institute of property in the rapaciously programmed privatizations and conditions of unprotected and unspecified ownership rights. But why?

The answer is also crystal clear: because of greedy, interest-oriented “reformers” (new masters and nouveau rich “effective owners”), who blindly followed the recipes of exploitative neoliberal economic policy. And this is not the end, at least not for all neoliberals, because some (quite insignificant in global and even regional relations) are still orchestrated and publicly supported by neoliberalism!

They do not care for the above-mentioned John Williamson’s acknowledgment of error, the creator of neoliberalism, nor for the criticism of Jan Aart Scholte, Ulrich Beck, Joseph Stiglitz, Paul Krugman, James Tobin, Ingomar Hauchler, Hans Lenk, Hans Kiing (the supremacy of politics over economics, the supremacy of ethics over politics and economics), and many others.

Illusory and controversial book “The End of History and the Last Man” (1990) by Francis Fukuyama, with an optimistic vision of the ultimate victory of neoliberal capitalism, has shown all the error of blind faith in the possibility of formative and non-alternative socio-economic development. Now Fukuyama presents pessimistic forecasts and mockingly writes about “*things that are immanent to Reganism*” and “*some kind of self-regulatory capacity of the market*” (2009, pp. 61-22). Although he does not question the success of capitalism, he openly advocates “*moving to a different model*” if the capitalist economy is to be improved.

## **Neoliberalism and globalization**

All or almost everything related to globalization rests, begins, and ends on the market as an economic institute (regulator) and competition as its basic leverage. Forming the power of the national and supranational elite has become a new (neoliberal) development guideline. The fourth type of economy according to Peter Drucker has been realized: after the nation, region, and transnational corporations comes the business type dominated by money, credit, and investments, enabled by liberalization and denationalization of flows of goods and finance in the world market, as well as the transformation of institutional investors (pension, insurance, and investment funds) into creditors. Therefore, Wertheim identifies globalization with “*international currency fundamentalism*”, Amin identifies globalization with “*an ideological discourse used to legitimize the strategies of the imperial capital*”, and Ramonet identifies globalization with “*geopolitics of chaos and empire of liberalism*” (Draskovic, 2002, p. 23).

Many authors believe that globalization is theoretically based on the understandings of transnational market liberals, globalists, and geopolitical economists, who

merely rhetorically impose the *principle of competition* as the dominant and comprehensive key to globalization. They point out that the practice reality severely reduces the proclaimed principle, because, if necessary, balances between the use of neoliberalism (towards a rich minority) and protectionism (towards the poor majority). In that sense, N. Chomsky's (1999) warns that globalization is an *ideology of rich* (developed), causing crisis of sovereignty and deregulation in the underdeveloped countries, but not also in the developed countries as initiators of globalization. The lucid analysis of neoliberalism is thematically directly linked to the phenomenon of globalization.

It defines neoliberalism as: a) the fundamental political paradigm of our time, which serves globally for domination, b) the global political and economic trend, c) 'capitalism without gloves', d) a new version of the old struggle of a few wealthy people against the majority of the poor, and e) an ideology and doctrine of the free market which is "*above all*" (Ibid., pp. 5-20).

Chomsky is not the only one critic of the neoliberal character of globalization. Many authors believe that the neoliberal paradigm was taken from the papers written by F. Hayek, M. Friedman, and later from publications by OECD, GATT, IMF, World Bank, and others. It seems that a particular impulse was given to the model in the 1970s, when Western countries invested increased efforts to neutralize the so-called "new international economic order", which tried to establish newly-liberated countries in order to redistribute resources more fairly in favor of periphery.

The "*welfare state*" crisis also played a significant role in forcing the neoliberal model as the "*eminently hegemonic order*" (Elakovic, 2001, p.171), based on the following characteristics:

- stressing the strict *homogenization* of mechanisms of state regulation (especially monetary) of countries that are forcing globalization,
- absolutizing the *market* as "*equality of opportunity*" (M. Friedman), that is, the unique and omnipotent regulatory mechanism of price formation;
- the nation-state and economy are treated as dying categories that need to be overcome as soon as possible. In this regard, an *open economy policy* is proposed, which supposedly best suits the achievement of economic growth;
- strengthening the measures of *liberalization*;
- forcing *privatization*;
- propagating and partially implementing *deregulation*, however, the state regulation is mostly reformed and flexibly adapted to the requirements of the business;
- maintaining and supporting the *dominance of competitiveness* of the world economy centers, because competitiveness is considered to be the main basis for success;
- forming *new regulatory (institutional) mechanisms* of the global economy;
- *controlling and exploiting* the economy of peripheral countries;

- underestimating foreign cultures, historical traditions and heritage, while *imposing* the western pattern of life, etc.

Faith in a neoliberal recipe is raised up to the myth and turned into a cult that pervades and expands the paths of the globalization mission: *“Today and for the foreseeable future, the only international civilization worthy of the name is the governing economic culture of the world market”* (“Foreign Affairs”, July-August 1996, p. 45).

In considering the neoliberal globalization model it is necessary to distinguish its theoretical point of view from real practice and politics, because they are very much different, as N. Chomsky insists (Ibid., p.19). Primarily because of the *dual standards* applied by developed countries, while rigorously conditioning other countries, applying radical versions of their recommendations, which to them are not binding, only “*when necessary*”: *“The free market doctrine has two forms. The first is an official one, imposed to the unprotected. The second is the one we could call the ‘real free market doctrine’ that says: market discipline is healthy for you, but not for me, unless it gives me a temporary advantage”* (Ibid., pp. 39-40). In other words, *“the market discipline applies for you, and it does not apply to me unless, in fact, ‘the odds are on my side’”* (Ibid., p.77).

It is symptomatic that even the US magazine “Fortune” acknowledges that *“when American business talks about capitalism, it takes into account the free market for everyone, except for themselves”* (May 25, 1998, page 25). Chomsky argues that markets are almost *never competitive*, because they are controlled by large corporations, therefore, the world system resembles *“corporate mercantilism”* (Ibid., p. 132). The neoliberal model of globalization assumes externalization of unfavorable operations, own costs, crises, difficulties, and problems of developed countries. Unemployment is reduced at the expense of immigration reduction, the lack of internal sales markets is compensated by exports; exhaustion or lack of one's own resources is compensated by imports; the lack of investment solutions is compensated by capital exports, etc. (Oxelheim, 1996, p. 34).

The ideal of globalization, in its aspiration towards generality, has some common points with totalitarianism, which, by its nature and according to historical experience, is a transient phenomenon. At the beginning of the new millennium, the memories of the last century are still fresh, abundant in various forms of utopia and totalitarianism, two of which were dominant and tragic: a “spectre” of fascism (with Nazi ideology and the race primacy) and a “spectre” of communism (with Bolshevik ideology and the classes primacy). If we assume that these phenomena today are largely overcome and/or marginalized, we must admit that we are in a state of expectation, anxiety, and fear of new forms of utopia and totalitarianism, which can produce a new “spectre” is haunting the world - the process of globalization with the ideology of transnational and geopolitical expansion and the primacy of large capital interests). The 20th century totalitarianism produced two world wars and imperialist tendencies, therefore we rightly worry and wonder: Will globalization be better?

D. Soros's statement that "*the global capitalist system is far from stability*" and that "*the global financial system as a whole is less and less reliable, because the authority and reputation of the International Monetary Fund have been greatly shaken*" (2000, p. 56) is quite symptomatic. Frequent and shifting financial crises are real, whether they are cyclical, recessionary, regional, national, or speculative. Crises have always required increased state regulation, no matter how much it was recognized. Since financial markets have received a high degree of globalization, in all future financial crises it will be necessary to strengthen the regulation of national and global character. The question arises: Can such regulation be functionally and timely coordinated, and successfully done?

International capital movement is a fundamental generator and accelerator of globalization. Financial operations are its central synergistic mechanism and the area in which it has made the most progress. Liberalization, deregulation, and computerization have increased the volume of transactions and capital mobility, reduced transaction costs, internationalized flows and shifted towards institutionalized investors in many ways. Financial innovations have allowed the domination of a huge virtual speculative capital. Due to increased competitive ability and profitability, financial markets have been liberalized, creating new international financial markets of currency futures and options. This has enabled fast development of hedging mechanism, risk management, and derivative mechanism as a more risky and unpredictable form of financial instruments.

They have created new opportunities for speculations based on changing currency rates, stocks, and other financial assets. The emergence of derivatives and other various financial instruments has accelerated the process of financial market independence, which has begun to increasingly serve itself, regardless of the real economic sector. This has led to a great instability in the world financial markets. In the mid-1980s, P. Drucker wrote that financial markets began to play the role which was independent from the market of goods and services. Financial globalization has led not only to the free movement of enormous financial resources through transparent national boundaries, but also to changed function of money in the global economy. Money begun to be traded as a classic goods, and therefore *currency speculations* became the most important market operation ("Foreign Affairs", No. 4/1986, p. 786).

The vigorous development of electronic technology through currency and financial speculations has created a "*casino economy*", because the amount of the so-called "*phantom money*", issued by private banks with license, is growing. The percentage of reserve issuance of lending money is very low, which increases the mass of "*phantom money*", which in case of simultaneous demand of their creditors cannot be paid, which would lead to a financial collapse. Financial crises in Southeast and East Asia and the contemporary global financial crisis could be the prediction of the worst case scenario?

According to many authors, it can be concluded that the new "*global order*" is a model of a totalitarian, to the absurd banalized, westernized and utopian (neoliberal



internationalism). The essence of a complete neoliberal globalist rhetoric is geopolitics of the most reactionary direction of geographical determinism, that justifies imperialism by calling for necessity of spreading the living space. Real democracy is based on compromises, not on dictates, and affiliation to the market economy should be more a freedom of choice rather than tradition or cultural-civilization predestination.

Globalization is endangering the entire world economy through fascinating speculative activity with an enormous amount of virtual financial resources, through shifting crises to other countries, and through artificial creation of crises in various areas, through pressures and economic indoctrination by various slogans, through outdated theories, through unrealistic neoliberal self-regulation models and destructive recipes of restrictive economic policy, through propaganda and books about the ideal well-being state and consumer society, the “open society” of Soros type, and the open economy. Some authors go so far and consider that the forced realization of the neoliberal structure of the so-called “*global village*”, according to Neklessa (1999, p.32), has replaced Nazism and communism, and emerged as the third dominant “religion” of the past century.

All empires have historically collapsed and shifted, as well as ideologies, formations, totalitarianisms, dominations, and forms of exploitation. But their remains lived (or survived), less in pure and much more in recombined forms. Therefore, it’s unlikely for neoliberal invasive ideology, economics, politics, and philosophy to disappear. It will be mimicryly modified, somewhere earlier, somewhere later, and somewhere less, somewhere more. And it will grow into a different and more contemporary, recombined form of manifestation, and methodology of domination of the mighty. Whether and how much will it be more human and socially responsible – remains to be seen. The degree of real human freedom and democracy will depend on this.

It is certain that mankind will have to return to production (instead of financial engineering and mercantilization of everything), to sustainable development (instead of cruel exploitation of nature), to ecology (instead of uncontrolled pollution), and to institutional pluralism (instead of market fundamentalism). It is also certain that the service economy will have to be reduced to production services and will be drastically reduced for the virtual financial services sector. It is an important issue whether and how much the military budget of certain countries will be cut, since it is used to finance imperialism and war adventures in various parts of the world. This will greatly depend on *cost-benefit* analysis and the need to activate aggregate demand than some utopian geostrategic plans.

The global financial and economic crisis was foretold: *Firstly*, there were many serious crises, which indicated a far greater and more devastating crisis, stemming from the global connection of business; *Secondly*, there were statistical data in many world economies about low economic indicators, poverty, debt accumulation, catastrophic transition of post-socialist countries, etc; *Thirdly*, many authors have war-

ned that the neoliberal concept of economic policy management in power and unjust enormous wealth accumulation are unsustainable, that financial markets are very weak (N. Chomsky, A.vKobjakov, M. Hazin, S. Rich, J. Stiglitz, J. Gray, G. Soros, M. Rabin, D. Harvey, etc.).

The peak of liberal capitalism crisis was the Great World Economic Crisis (the hyperproduction crisis), which began with the collapse of the New York Stock Exchange on October 24, 1929. The peak of contemporary global world economic crisis can not be determined, because it depends on defining the date of irreversible break up with a neoliberal dogma, which proved to be socially insensitive, elitist, destructive, economically inefficient. As things stand now, there has not yet been a general consensus on this issue, because it is not a socialist public good that can collapse overnight, but rather a capitalist public strategy of enrichment, which no one will give up until a suitable substitute is found.

Today, it is malicious and incorrect to say the sole culprit for the global economic crisis is the theoretical and practical concept of neoliberalism, regardless of all its proven destructiveness. Neoliberalism was initially a response to the crisis, to the same extent as is today's interventionism. Later it grew into a monistic institutionalism of high interests, however, not *per se*, but with the deep sympathy towards the interest-oriented state nomenclature in power.

A dimension of failed economic institute of state regulation is crystal clear: if someone is enabled to rapidly and enormously accumulate wealth, the institute of control and regulation must have failed; if someone is given privileges, that could have be done only inside the state apparatus! Clearly, there has been a redistribution of wealth, in which many have lost, and the rare have become oligarchs. *"By pursuing their own interests, individuals actually act in the public interest"* – this idealistic saying by A. Smith is not theoretically and ethically disputable. Also, it is not disputable that the interests of others should not be compromised, i.e that own wealth (and happiness) must not build on the misery (and misfortunes) of others. And that is what has happened and what is being reproduced.

The freedom of market (and other) choices must not be hampered, however, only with own risk and own money, and within the limits of moral criteria, social responsibility, rational behavior, institutional standards, protected and clearly specified property rights and game rules without odds on someone's side. The market is not and should not be opposed to freedom, because it is one of its forms and ways of manifestation. Only a quasi-market (an institutionally deformed and privileged market) represents the opposite of freedom and its brakes. The quasi-market limits its real freedom, and strengthens its limitations and deformations. The regulation must exist to correct and prevent market distortions and to force innovation.

The global financial crisis is a Pyrrhic victory of speculative management over entrepreneurship, the asymmetric information over risk management and rating agencies, the non-transparent and virtual financial sector over taxpayers, the neoliberal monism over institutional synergy, the economy casino over real economy, the

market turmoil over state neglect (selective absence of regulation ), the creation of risk over managing it. When all forms of institutional control disappear, chaos and crisis develop.

Lessons need to be learned in order to deeply understand the objective impossibility of sustainable development based on institutional monism and the narrow interests of rare and privileged individuals, who are often party members and lobbyists. Development can not be based on jumps, ignorance, immorality, distrust, non-cooperation, sociopathological phenomenology, anti-civilization and anti-human norms, various unnatural antinomies, disinvestment, false rhetoric, bluffs, deceptions, drastic misconceptions, exploitation, domination, and demotivation. A rational and sustainable choice should be exercised by governments, peoples, and all mankind at risk.

The main flaw of neoliberal “shock therapy” is the wrong choice of priorities, in which goals (exiting the crisis, economic growth, efficiency) have been teleologically replaced by means (liberalization, privatization, democratization, deregulation). Practice has shown that it is not possible in this way, according to the Jacobin style, and according to the Washington Consensus recipe, to bring down the old social and economic institutions, which have been developed over several decades, and quickly build new, successful and effective ones. Otherwise, the reform speed is more important than its success.

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# ANTI-CRISIS ECONOMIC POLICY VS. INNOVATIVE -INSTITUTIONAL CHANGES

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*The combination of a global and local factors gives the modern financial and economic crisis a specificity and uniqueness. The aim of this paper is to point to the urgent need of the consistent anti-crisis economic policy creation, which must take into account local and global crisis and risks factors. This article discusses the influence of real institutionalization on the quality and efficiency of the economic policy. It points out at a primary significance of institutionalization on economic policy as well as on a destructive effect of pseudo-institutions on economic policy and valorisation of economic resources. Departs from the hypotheses that the creation efficient anti-crisis economic policy requires a correct and timely identification of the problems and crisis process, formulating their monitoring, defining the necessary measures and creating a development approach, which should be based on innovative-institutional modeling.*

Global economics trends in 2008 and the first quarter of 2009 have been characterized by recession. The entire Balkan region including Montenegro shares the same destiny, since global economic distortions, caused by financial crisis, spread like dominoes on the real sector and conditioned the biggest fall of economic activities in the last few decades. Weakening of the crisis intensity has been noticed in the last few months, and a mild recovery is expected at the end of 2009 and the beginning of next year.

Most of the Balkan countries are characterised by post-socialist transitional economic systems with deep problems, deformations, and disproportions, which have been deepened and complicated even more by global economic crisis. These consequences are results of erroneous economic policies and nonexistence of consistent developmental strategy and they also represent the focus of threatening crisis. Certain decision makers of economic policies, in the midst of unprecedented state interventions, are glorifying neoliberalism (thanks to which and on which waves they most probably came to power). They are forgetting that significant donations from

abroad, direct foreign investments and loans are not the result of neoliberal economic successes but of a concrete politics of the West towards the region.

Dialectics of economic development has verified the necessity for resource-allocational, organisational, innovative, motivational, institutional and information combinations as well as pluralistic functioning of all economic, political and other institutions. It is not the problem when economists are making mistakes, but when (if) they make mistakes on purpose because of different interests, especially if their interest ambitions can actively influence the actual economic politics, with accompanying “*opportunistic ignorance*” (Myrdal). This leads to promotion and realization of own choices, with which one is to maximise personal gain at the expense of somebody else’s (and with which somebody else’s choices are reduced – Draskovic, 2008a, p. 5). Non-alternative *interest one-sidedness* is seen in performances of many economic politics in the Balkan region and is characterised by paradoxical domination of socio-pathological brake system of anti-developmental, privileged and monopolistic interests, in which the notion of origin of property has been *persona non grata*.

Challenges of global crisis forced out a paradigmatic response of market economies, based on *state interventionism*. Hence the message from the recent Summit of leaders of developed countries to underdeveloped “*not to focus on protectionist measures*” had surprising repercussions. It represents typical dual standards in “developmental” macroeconomic recipes. It is clear that the crisis in the Balkans cannot be overcome in a way in which the concept would not be considerably amended and that, as thus far, only facade forms are innovated. This article is trying to show the ruinedness of hitherto disinvestment and anti-institutional economic politics of post-socialist Balkan countries and wishfulness for applying anti-crisis economic politics based on real innovative-institutional elements.

### **Disinvestment and anti-institutional economic policy**

Economic development of post-socialist countries of the Balkan region is based on permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neoliberal recipes of macroeconomic politics. The latter one has been extremely motivated by interests of insatiable appetites of state nomenclatures, which represented the main obstacle for institutional changes, apart from noticeable socio-pathologic milieu. All of this resulted in long-term destabilisation of economic systems through disinvestments and spilling over of positive effects in spending instead of production.

*Institutional innovations* are, when it comes to timing, structure, quality, quantity and functionality, undeveloped compared to other transitional changes, instead of being their foundation, stimulant and a guarantee. There was a big lap between

formally established economic institutions from foreign economic policies and economic behaviour in practice, which was far from standard norms. A *strategic significance* of practical institutional innovations was disregarded as well as their *priority role* compared to economic politics. Vulgarized *individualism* was imposed by certain “*skilful and capable entrepreneurs*” (“*efficient owners*”) as a social and civilizational norm. Such *reduced individualism* (of the privileged) became very fast a foundation of formal *institutional monism* as theoretic and ideological basis for neo-liberal economic politics (which resembles economic kłokotrizam i.e. “*selling of nothing*”—without consequences for sellers.) The main cause of the mentioned phenomenon is a paradoxical need for the public economic policy to serve private interests.

A complete distrust in the institutions of state regulation is neither logical nor productive and is not appropriate for increasing IT, production, innovative, financial and civilizational integrations. Wrong post-socialist economic policies in the Balkans contributed to creation of a specific brake and crisis transitional model “**23d**” (see p. 53). The above mentioned model “**d**” is characterised by functioning of “*rapacious country*”, which substituted the “*country of development*”, which eroded the socialist institutions and which created an institutional vacuum. This has enabled the initial rapacious mass privatisation and later on the so called “*privatisation of gains and nationalisation of losses*” (May, 2008, s. 7).

Populist and paternalistic tendencies are not avoided and the only unclearness is to which extent they compensated the primitivism of rapacious trends, monopolisation and criminalisation of Balkan economies, accompanied with reduction of institutional changes (innovations), of economic freedoms and healthy market competition. One of indicators of unsuccessfulness of post-socialist economic policies in the region can be a high level of systemic, political and economic risks, which are the best illustrated by high interest rates, cautiousness of foreign investors and enormously low prices when privatising companies, hotels, banks, land and other property.

A theoretic approach implies state regulation of economic policy measures in all cases of inefficiency of market regulations, when economic growth and sustainable economic development are endangered. Since this type of interventions did not happen in the last two decades, the economic policy in that period cannot be called, at first glance, crisis policy. However, the practice shows something different: complicating of economic problems, erosion of state property and its decantation into the ownership of rare individuals (*making of illegitimate profit*), drastic social stratification and pauperization of citizens, high unemployment and fictive employment, flourishing of black and grey market, erosion of trade and industry and so on. A recombined regime was created. It is a system in which the economic policy resembles marionette of certain political parties and individuals and which serves, as it seems, only for preservation of power and increase of property of few. Since institutional solutions did not work, the responsibility should lie with those who create government policy (economic and other).

## **Anti-crisis economic policy based on institutional innovations**

Even before the global economic crisis, the economic policy of small and less developed post-socialist countries refracted in the prism of different shapes of economic assistance, direct foreign investments, creation of conditions for Euro-Atlantic integrations and for foreign trade relations in which import component dominated. Overcoming crisis and propitiating of its consequences depends on the right choice of anti-crisis measures of economic policy, which have to be directed towards overcoming of limitations of economic growth and development.

It is impossible to unify the list of mentioned measures, which is different from country to country and has different priorities that depend on the level of a reached economic development, specificities of certain industries, indicators, consequences and different level of crisis of a certain economy. Rational anti-crisis economic policy has to be based on:

- consistent developmental strategy,
- implementation of defensive measures which will, as a priority, take into consideration the so far mistakes, ecologic limitations and social requirements,
- maximal support to civilizational innovations in the area of technology, organization, regulatory mechanisms, political, economic and social relations, saving and rational allocation of resources,
- modernisation of state regulations, as the main institutional innovation,
- development of human resources and
- change in the way of thinking and behaving.

Institutional innovations imply civilizational norms, placing economic behaviour in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favour healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market - yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behaviour, institutional standards, protected and well specified property rights!

Only institutional innovations can neutralize party-lobbystic structures and can activate missing control mechanisms, rule of law, economic freedoms and efficient instruments of economic policy.

## **Crisis factors of Montenegrin economy**

In the last two decades, Montenegrin economy went through a difficult developmental period: from deep transitional recession, through euphoric economic “boom”



based on foreign assistance and virtualization of certain economic sectors (real estate markets, prices of shares at stock market) to another crisis affected by both global and local factors. How come an “*attractive investment and tourist destination*” turned into a crisis and risky one in such a short period of time?

The period of transitional recession was marked by rapine privatization, rupture of economic structures and infrastructure and adjusting to different types of assistance from abroad. The period of pseudo economic boom happened in the period of huge direct foreign investments, which served for filling in the state budget, but in most cases it was a process of disinvestment (investing in the real estate and in spending). Investments in production were insignificant. Development of institutional environment did not happen; economic policy was passive, unselective and anti-innovative.

If we consider goals of thus far economic policy through the prism of integrations in the European Union, we can notice much bigger institutional and developmental disproportions than complementarities and convergences. The existence of Euro as the currency which is too strong for Montenegrin circumstances, the signed institutional arrangements and fast harmonization of legal regulations represents more a symbolic than valid framework for united European environment. It is known that fulfilling of Copenhagen criteria depends before all on the real formation of qualitative political, democratic and economic institutions.

The influence of global crisis illustrated very fast the illusority of economic growth based on inconsistent economic policy. One cannot talk about economic development since structural and institutional changes were minor and short-term economic growth was not reached even in the midterm. The first six months of 2009 marked, after many years, a decrease of economic activities for 3,5%; the budget deficit reappeared and it amounts to 7,9 mil. € (0,2% GDP); rebalance of the budget was also done and according to it, source revenues decreased for 212,36 mil € at 6 % GDP, the extreme borrowing amounting to more than 125 mil€ is needed; public debt increased significantly; inflation increased for 8%; deposits of industry and banks decreased significantly; financial insolvency is considerably endangering economic flows; stock exchange turnover decreased drastically for cca 133 mil. €, followed by a huge decrease of stock exchange indexes; foreign debt reached the level of 550,7 mil€ (15,6% of estimated GDP), negative balance of the current account increased from last year's 1.005 mil.€ (cca 30% GDP) for additional 189 mil.€.

There are no new sources of growth and what is wanted is “*at least one big investment*”, which would allegedly resolve all Montenegrin economic problems: “*Successful market capitalization of the Electric Power Company of Montenegro*”<sup>3</sup>, *good tourist season and valorisation of launched tenders in the area of tourism are factors which could significantly influence economic growth*” (Report of the main

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<sup>3</sup> The Government confirmed that an Italian offer for market capitalization of the Electric Power Company of Montenegro amounting to cca 457 mil.€ was accepted and this amount makes cca 10% GDP.

economist of the Central Bank of Montenegro). One cannot understand neither such palliative thinking, on which the economic policy is based, nor basic economic logic of “*drawing the red line*” one day when there will not be anything for sale, not even at very low prices, as done so far.

It is said that there are no secrets in economics and even when they exist they are not generated neither in private ownership nor in market, but in competition, which is being suffocated so much. Considering this in a long term, the economic terrain leans towards one side - that of monopolistic and newly rich and powerful, who became rich in a non-competitive way and with privileged businesses and who are today increasing their wealth through secured and guided businesses, from one situation to another. They are not thinking of turning their possessions into capital because in this type of environment almost nothing is secure, long-standing and sustainable. Why should “*big players*” risk when there is a well developed institute of *informal limitations* (conventions, self-imposed caudexes of behaviour, privileged norms of behaviour, impact of total institutions, anisotropy of information and unavoidable privileges). No one is responsible for the fact that informal institutions are formally and essentially conflicting with formal ones (Constitution, law, rules). What matters is that the severity of the law is super-finely compensated with its non-implementation.

In a discussed unfavourable economic and social situation, there came the strike of the global crisis, which put an end to the sources of economic growth on which the economic policy was based: the price of aluminium has drastically fallen at world markets (from 3300 € per ton to 1629 €) and this was a dominant Montenegrin export product; the assistance ceased long ago (with elimination of reasons for which it was given); tourism is also declining influenced by economic crisis and numerous other factors; the construction sector is marking a collapse as well as market prices of already constructed and initiated real estates. Risks are increasing as well as the price of capital, which is almost nonexistent. Everyone is expecting a rescue and consoling themselves: we are a small country, it will be easier to overcome the crisis. As if this was only the impact of global economic crisis and as if there is no reproduction of the local crisis, without which the global one could perhaps be minimized in an institutionalized environment with well planned economic policy.

The global economic crisis was saluted with no discomfort and with a conviction that it will go round Montenegro since it is a small country. The preference for monistic neoliberal forcing of market institutions, which already showed as unproductive long ago for most of population, only suited narrow groups and individual interests, which are controlling the economic ambient in the monopoly. Such degenerative institutional environment has a small chance to converge towards some economic successful institutional model. Illusory sayings about democracy are reflected here since it is proved that participatory democratic regimes lead towards sustainable economic growth, have more stable economies, they better absorb shocks, are distributing revenues more evenly and stimulate objectively the creation of qualitative economic and other institutions and innovations. (Budak and Sumpor 2009, s. 176).

Apart from that, the economic reality is overburdened by weak protection of property rights and investors, shortfalls in the work of state administration, pronounced existence of corruption and inefficient struggle against it, different regulatory limitations, insufficient rule of law and similar. The question of economic freedoms is problematic in conditions of significant unemployment, fictive employment and low living standards, on one side, and relatively high prices, on the other. New developmental strategy has to take into consideration its own specifics but also unalternativity of exemplar innovative-institutional models in the region and the world. Specific characteristics of institutions are not their different colouring, form and political orientation, but quality and efficiency.

Review of official governmental documents relating to economic policy in the last years does not show existence of risk analysis, without which developmental plans of economy seem gratuitous. The crisis threw the light on all weaknesses of economic policy, not only in the domain of risk, but also in mercantilistic-neoliberal orientation related to sale of key economic capacities. The collapse of stock exchange market has additionally made citizens and a real economic sector more miserable and showed that it all perhaps has to do with programmed and manipulated losing trends.

Opinions of local analysts can be subjective. Thereafter, we are quoting the latest report of the USAID (newspaper „Vijesti“, 29.07.2009, p. 9), which emphasises numerous deformations of economic policy makers in Montenegro: poor control and monitoring of the work of the executive power, weak institutions of the government, limited political competition and broad intertwining of political and economic elite (compare with: Acemoglu, D. et al. 2004.), limited publicity of the work of the government, poor implementation of the law, limited access to information, widespread use of personal connections, nepotism and favouritism, corruption as an activity for great gain with little risk, huge conflicts of interests, rigidity in politics and governing. When you add to these, anisotropy of information, negative selection of cadre, advantage given to political affiliation, as opposed to competency and many characteristics of hermetic society (it is still a long way to civil society), it is then clear that the economic policy could not have been much better.

- Package of measures of the Government of Montenegro, which will be implemented with the aim to lessen negative effects of global economic crisis comprises: strengthening investments in the infrastructure and support to development of private sector,
- decrease of ongoing and unproductive budgetary spending,
- support to citizens and economy by securing additional solvency and
- socio-economic measures.

„*Economic miracle*“ of Montenegrin economy and closer Balkan region was dismantled by the first more serious wave of the global economic crisis together with longterm negative local economic currents. The crisis according to its so far manifestations is surpassing ordinary cyclic oscillations and it clearly accentuates weaknes-

ses of the economy. Changes for dealing with the crisis have to be sought, apart from more work, order and discipline, in institutional innovations and the area of economy of knowledge.

Operational anti-crisis support measures to economies in the region must be combined with development of consistent, systemic developmental strategy, which will be the basis for adoption of innovative developmental model founded on creation of a stable institutional environment and accelerated adoption of economy of knowledge. These are the conditions of all other conditions. It is understood that there is a stimulation of internal demand, securing allocation of capital in priority areas, substitution of import as maximally as possible and genuine stimulation for developing small and medium sized entrepreneurship, with gradual elimination of burdened economic problems and disproportions. It represents, inter alia, stabilization and strengthening of banking sector, severe and efficient control of active and passive operations of all financial institutions.

Affirmation of anti-crisis measures is an imperative of time and economic growth, which in the discussed region has to be orientated towards production of qualitative services (banking, logistical, tourist, transportation, communicational and so on), on the basis of absolute and comparative advantages. All anti-crisis measures have to be considered through the prism of few basic criteria: increase of production and employment, liquidity, economic effectiveness, restructuring and sustainability of economic growth and development. A special attention has to be dedicated to increase of agricultural production, wherever it is objectively possible.

Global crisis represents a unique possibility to create qualitatively different and better developmental approach to economic policy, which proper implementation can secure a stable economic growth. It includes a complicated and difficult process of fundamental civil and economic changes (innovations) and not cosmetic retouches as so far, which always had a palliative character and limited scope. It is necessary to overcome a rhetoric and interest sayings about successfulness of neoliberal economic doctrine. The outdated and hazardous market fundamentalism has to be urgently and in a long-run substituted with “*institutional fundamentalism*” (Rodrik et al. 2004) and with enormous doses of some of Keynesian medicaments. The economic policy has to be directed towards production of goods and services (instead of financial engineering and *merchantilisation* of everything), activation of comparative advantages and sustainable development (instead of sale of natural wealth and monopolies).

The institute of state regulation, to which the economic policy belongs, has to be revitalised and made functional. Rare individuals became extremely rich in a short period of time since the institute of state control and regulation did not work; these people were given privileges, there was reshuffling of wealth in which both the state and majority of citizens lost. Without any ambitions to prejudge the opposite process, new anti-crisis economic policy has to take certain measures in order to activate and invest in the above mentioned wealth and to tax huge assets.

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# CONTEMPORARY SUBSTITUTES OF THE POLITICAL ECONOMY

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*Subject of this paper is a critique of the selective theoretical modelings of economic realities, which are monistic (quasi-neoliberal) and mathematical-statistical in nature. In this sense is defined theme, named Contemporary Substitutes of the Political Economy. The aim of this research is that the above mentioned modeling of economic reality would be described as a deliberate motion from analysis and explanation of fundamental economic problems towards secondary issues. Therefore, we characterize them as unfair and programmed ways of fogging the essence of economic problems and crisis. We start from the hypothesis that these modelings replaced and virtually eliminated the former synthesized and useful political-economic analysis. In this paper, we have used a descriptive comparative method, panel sample and a schematic logic modeling. Results of our research show that substitution of political economy by neoclassical and neoliberal economic is performed in a longer period, and through prioritizing the mathematical-statistical econometric analysis. As a proof, we present our selective research panel using a sample of 39 issues from five international journals, which can be found in databases SSCI and Scopus. This research is limited by the unavailability of most magazines on the Internet and in printed publications. Application area of the research results from this paper is an economic theory. In conclusion, we ascertain the need for greater affirmation of political economy, which would, combined with new-institutional theory, enable a more realistic view of social and economic reality.*

The development of economic science in general, whatever it is called (political economy, the basis of economy or economics) has always been accompanied by attempts to interpret the *objective conditions* in the economic reality. In these interpretations have always, more or less, appeared and reflected the *subjective aspirations* (reduced on *interest apologetic*). Full ideological neutrality was and is pretty rare in economic elaborations, especially of economic „officials“ (the principle of *dominance of the politics over the economy*).

Rapid changes of economic reality, contradiction structures, priorities, systems and criteria values, have influenced the development of many economic thoughts, which has always vacillated between the explanation of *economic practice phenomenon* (economic growth, cyclical fluctuations, economic balance, inflation, unemployment, disparities in development, privatization, economic institutions of ownership, state and market regulation, unequal distribution of income, etc.) and prevailing *requirements of the politics*. This has led to the glorification of one and underestimation (marginalization) of other economic processes, phenomena and problems. Therefore M. Blaug (1996) states that the development of economic thought is equally „*the history of explanations and justifications*.“ However, T. Kuhn (1962) has written that a scientific paradigm can insulate the community from important social problems. In our case, the imposition of neoliberal dogma and mathematical-statistical dominance in economics prevents the formation of political-economic paradigm development.

Identification of basic theoretical schemes (as a realistic picture of reality) with ideological doctrines (as a subjective image of reality) has always disguised numerous dangers, and often led to disastrous consequences, sometimes visible to a naked eye. The post-socialist transition is a good example of this statement. The gap between a model of neoliberal rhetoric and quasi-neoliberal reality is immeasurable, and has made enormous harm the people and government resources in the countries where it has been applied.

Monistic neoliberal instrumentalization and institutional improvisation, and operationalization are still present in some transitional countries (in particular in South-East Europe) in various quasi-forms. Despite the fact that economic practice has convincingly relativized the mythological thesis of eternity and universality of „market self-regulation“ and „state order“ (i.e. „*spontaneous evolution and cognitive control*“ according to F. Hayek) and verified the inevitable developmental need for their institutional convergence and combinations (institutional pluralism).

Every monism, apologetics and fetishism in theory are counterproductive, because they idealize and blur the object of observation. In practice, it (economic realities) is followed by the collapsing effect of quasi-monism (quasi-neoliberal and others). Actually that's what I have often named the economic clockotism in my earlier works. To say the least, we are talking about „*selling goods for a bill*“, „*throwing dust in the eyes*“, or originally (jargon) – buying a pig in a poke... without consequences. What is a purpose of accusing (Madzar, 2015) anti-liberals (university professors) for dirigisme? We constantly accuse quasi-neoliberals, because they have committed the redistribution of national resources to their advantage.

Dialectic of development has verified the need for resource-allocational, organizational, motivational and informational combinations and interdependence, namely – pluralism of economic institutions. Of course, it has never been a major problem when economists (in theory) are wrong – they have already been „*so often wrong*“ (Ashley). The problem is when they are interests and/or opportunistically



wrong, especially when interest ambitions have the possibility to actively influence the current economic policy, which is not a rare case. This leads the way for promotion and realization of their own choice, maximizing their own interest at the expense of others (reducing someone else's choice), in terms of the „*free market for everybody, except for yourself*“ (Fortune, 25.05. 1998, p. 25).

Any national economy can not function without the built-in moral, institutional and other „stabilizers“. Neoliberals constantly refer to F. Hayek, but they never mention that he claimed that western economic order „*arose from an unintentional sequence (appreciation) of certain traditional, primarily moral principles*.“ Similar to Pareto optimal, in civilized and developed economies, maximizing behavior of economic agents is allowed only if does not jeopardize the interests of other members of society. Is the message called „*Krugman's sin*“ not clear, claiming that there are theories that describe reality much better than the standard theories, but are not used in practical economic policy?

The crisis of value paradigm in economics (apologetics in theory and the crisis of moral criteria in economic behavior – opportunistic, non-market, rapacious, elitist, privileged, and the like.) is closely associated with the shift of value criteria in the socio-economic development (eg. in aforementioned post-socialist transition) but also with retrograde neoliberal „*classic of one-sidedness*“ (of monism – institutional, individual), presenting itself as the non-alternative reforming-development thought. As if the formed *paradoxical dependence* in many transition economies no longer exist: e.g. economic efficiency in the case of unorganized market depends on the immoral (anti-legal) economic activities!?

As if the disturbed balance of private and general economic, social and other interests is not noticeable!? As if there are no insurmountable and inhuman differences of all sorts, horrible reduction of proclaimed principle of competition in practice and much more which does not fit into the rhetoric of sentry „messianic“ quasi-reformers and self-styled economic analysts (often without scientific verticals), supporters of monistic dogmas and economic determinism. In this way was created the causal and consequential circuit of vice, which exists in the absence of political economy (Figure 6).

We live in a time of great paradoxes. The first paradox: we live in the era of „post-capitalism“ („comradely capitalism“), technocratic, post-industrial and information society, the civilization of the third wave (Toffler, 1990). Nevertheless, the obsolete destructive formulas are being imposed freely, interests and unpunished, and their devastating results have been „proved“ long ago and in many areas. But their creators do not apply them in the home countries of the conceptual origin. The second paradox: in the era of extorted shift of the market economies towards state interventionism, the summit of developed countries leaders sends a message to the underdeveloped not to focus on protectionist measures (again double standards in the „development“ formula). State regulation is orchestrated accusations. Any guilt of neoliberal economic policy is denied (Politika, 27.07.2015).

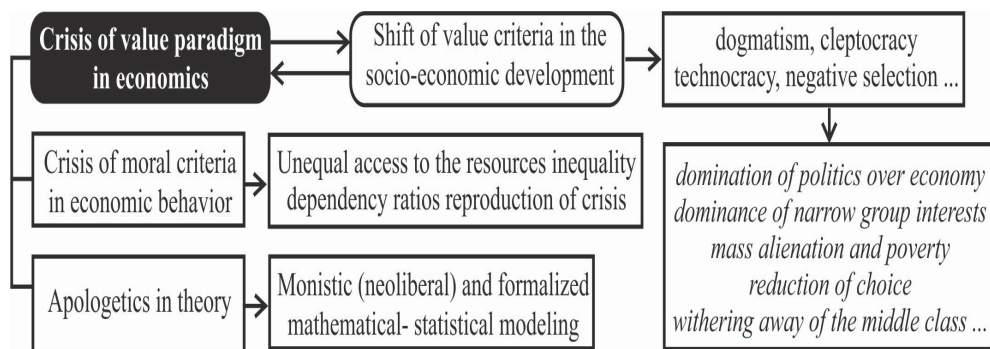


Figure 6. **Key causes and consequences of removing the political economy**

Source: Author's creation

The third paradox: the market self-regulation is advocated by those who are getting rich in non-market, through privileged use of other people's (usually state) resources, with passivity (and/or even support!) of state regulation. The fourth paradox: decades of unsuccessful experiments (socialist, then the transitional) has not learned any developmental lesson, at least in terms of lethality of non-selective and uncritical neoliberal deregulation, liberalization and privatization. This lesson is very simple: freedom of choice – yes, but only with own risk and own money! The free market – yes, but within the limits of moral criteria, social responsibility, own risk, rational behavior, institutional standards, protected and clearly specified property rights, and above all – fair game where no one takes sides!

### **Monistic modeling of economic realities as a substitute for political economy**

Monistic modeling of economic reality is actually a neoliberal (in theory) rhetorical exaltation of the alleged absolute advantages of private ownership, entrepreneurial initiatives, economic freedoms, effective owners, unrestricted market and the so-called „*minimal state*” (Prokopijevic, 2015; Vukotic, 2004). It is accompanied by various forms of quasi-neoliberal behavior in practice, with socio-pathological origin. It is a phenomenological and etymological ignoring of the real causes of social and economic problems, which are visible to the naked eye, and even unmasked by the media. Academic sphere (alibi-reformers and alibi-neoliberals), with their silence, omission and commission (dogmatic-description and apologetically) acts as a spiritual accomplice of all transitional negativity. It is difficult to generally write about political economy and characterize its great role and significance. It has been developed in various formational and civilizational circumstances, at various geog-

raphical areas. It has given a great and memorable scientific names, but also a large number of apologetic authors. Here are some unavoidable impressions:

- existence of political economy has always been objectively determined by the ruling policy, so the option of theorists (for or against the attitudes and interests of official policy) was interpreted as a political commitment, and
- for several decades, the political economy as a science has been calculatedly put into a corner to avoid writing about its distinctive themes of exploitation, alienation, inequality, monopolism, violence, opportunistic behavior, etc..

The place of political economy was occupied by:

- neoclassical abstract elaboration, that ignores real social and economic problems,
- orchestrated and interest neoliberal rhetorics, and
- mathematical-statistical modeling, regression, optimization and various other analysis, often with fictitious data and „dependencies“ which do not explain the fundamental problems of economic reality nor contribute to economic development.

In all this, the only joy is the appearance and development of various neoinstitutional and new-institutional economic theory. But they have not (maybe deliberately?!) significantly lived in the post-socialist region, especially in those dominated by neoliberalism as the official economic policy. Despite many achievements, political economy (especially in socialist circumstances) had a lot of negative characteristics, such as: apologetics, dogmatism, totalitarianism, tautology, vulgarization, ideological, institutional and quasi-institutional monism, collectivism, different answers to the same questions, copying, infinite quoting of party ideas, as well as attempts to turn certain misconceptions into absolute truth.

Needless and impossible is to outline the political economy of the West. Much easier is to do it on example of so-called political economy of socialism. In a paradigmatic sense, it was an attempt to create original (applied) economic theory. In the institutional sense, it was a stubborn and deviant institutional monism of dirigistic and/or modified self-governing type, and could, due to its numerous deformations, be marked with the sign „quasi“. In the scientific sense, it was extremely dogmatic, sometimes of ritualistic character. Finally, in a doctrinal sense, it had a dual nature: it was continuous and more or less monistically consistent, but still – of contradictory and periodic character. There were periods of less or greater freedom of economic thought. Nevertheless, the whole developmental period of so-called socialist political economy was dominantly marked by dogmatic and monolithic doctrine – institutional monism of state regulation (ie. dirigisme). Naturally, all the „original“ socialist directions have mainly „relied“ on Soviet sources and guiding ideas, regardless of their attempts to distance themselves from this rigid institutional single-mindedness.

Of course, western political economy has never been so liberal as claimed, because state regulation (as represented in official economic policies) have always controlled and determined the selective (according to the needs) acceptance of certain economic ideas. The theory and rhetorics have always differed from the practice. Front is not necessary to be elaborated, but there is too much information and evidence about the validity of that conclusion.

The dominance of politics and ideology, as well as the monopoly of state, however, are identical or similar guidelines for the „capitalist“ and „socialist“ political economy. The main difference is probably a strong cult of personality, characteristic of the latter, which has caused enormous suffering of economists, who „thought differently“. Of course, there were substantial differences in the level of (non)consistency, vulgarization, dogmatism and deviance of the applied „development“ models of the economy, their manifestations and consequences of the crisis.

Even though under another name, the post-socialist period has kept one important (but deadly) guideline of political science: vulgarization in theory and practice. It has enabled the conversion of one (former) institutional monism to another (modern, more sophisticated), one dogma to another (as it seems – much worse). Apparently, it has changed institutional form (sign): dirigisme was (at least modified) replaced by neoliberalism. They have kept their rhetorics, messianic promises, double standards, cruelty, protectionism towards its own people, domination of politics over the economy, reproduction of the vicious cycle of crisis, apologetics, palliative reforms, irrational mythology and other known anti-development and interest-oriented methodology, used for experimental purposes, with programmable interests of conductors (alibi-reformers).

In this way, open (socialist) totalitarian dirigisme has turned into a hidden totalitarian neoliberalism. Institutional improvisations and imitations have continued, and the result is (again) disappointing: total damage to the society and marginal benefit for „capable“ („resourceful“) individuals have parallelly augmented. One institutional dogma has turned into another, and one form of economic reductionism into another. Contrary to the civilizational aspect, and concerning the development and economic performance, in the practice of a proven institutional pluralism! Contrary to the indubitably necessary complementarity of economic freedom and economic institutions, i.e. freedom of choice of individuals (all those massively misunderstood) with collective interests, as well as compromise of individual and collective interests.

Everything is possible only in the politically determined and strictly controlled institutional conditions, with natural exclusivity and contradiction of institutional relations, the inability of institutional changes and institutional competition. In a quasi-institutional conditions, where dominating form of ruling alternative institutions is imposed, producing unlimited anti-institutional privileges of the few in the nomenclature circles. In the socialist period, individualism has been suppressed by programmed fictitious collectivism. However, in the post-socialist period, it has been

suppressed by programmed individualism of the privileged. The dictatorship of the collective in relation to the individual (in terms of a strong state, which has been built), by all means, was replaced by dictatorship of privileged individuals in relation to the collective (in terms of a weak state, which has been devastated)!

Dictate of the state were replaced by the dictate of so-called „new entrepreneurs“ (nouveau riche), so the former ideals were replaced by the vices! State monopolies were replaced by non-state monopolies, but instead of individualism of all was achieved an individualism of the rare (non-market selected and enriched). State violence has grown into violence over the state! Neoliberal deregulation (which essentially corresponds to an alternative quasi-institutional regulation) has replaced the dirigiste regulation, but reduced and vulgarized institutional monism was their common feature, which actually means reproduction of hindering anti-developmental mechanism (Draskovic, 2014).

After this criticism, i.e. a short-political-institutional analysis, it is clear that additional and more comprehensive response requires comprehensive questioning: Is the politics (how much and in which segments) more individualistic or collectivist phenomenon? Unfortunately, this goes beyond the scope of our research, knowledge and capabilities. But the results of the practical (visible, obvious) findings are clear. By accepting the risk of miscalculation, it seems that politics often appears as an institutionalized monopoly on coercion (usually party and ideology, where in pyramidal hierarchy, again, dominates the inevitable individualism, as a source of alternative institutions).

Here probably lies the answer (at least partial) to some questions on the subject matter, related to the relativization and/or elimination of political economy as a science. It is a comical and sad contemporary story (that is constantly „spinning“ in „scientific“ articles) about individualism, economic freedom, markets and market competition, entrepreneurship, benefits of private ownership and initiative, and the like. How much of that really exists in practice? There are no political-economic analysis of categories such as the origin of property, equality of economic conditions and access to resources, freedom for all, business ethics, man as a social being, exploitation, social inequality, pauperization, etc.. Even the „*institutional engineering*“ is treated extremely tendentiously and incorrectly by some authors (Vukotic, 2004), as the alleged key brake of transition! It seems that everyone should be aware that this brake has completely different name – *institutional vacuum*, which has been used for economic and social crime of enormous proportions.

The ambient of economic unfreedom (which in many post-socialist countries is not debatable) is further explained by dictatorship of the collective in relation to the individual, while neglecting the notorious true that an increase in economic unfreedom is a result of abundant dictatorship of individuals over the collective! It seems that the aforesaid misrepresentation of the facts has been accepted, among other things, due to the passionate opposition of believing in freedom of the individual (which we denote as an abstract individualism) and mistrust in equality (collecti-

vism). In these propagated freedoms we have not noticed the quasi-neoliberals advocating equality for the most (if not all). It is not good when even the idea of combining individual and collective is strange, which is generated in an efficient institutional arrangements (of course: pluralistic!).

Economic individualism has its advantages (when institutionalized) and its vices (when not institutionalized, so individual rights are manifested opportunistically and/or out of control, while neglecting the social obligations and forming a number of negative external effects). Also, it is not good when anyone's own individual actions are reduced to managing (and/or manipulating) the actions of others, especially when it happens just because that "someone" (party) got the privilege to do so. This is not freedom of action, but its negation. It's not good when the „*social engineers*“ (quasi-reformists) imagine another (abstract) social engineer.

That is classic calculating alleged non-recognition over sophistic replacement of thesis, disguising and evading the truth, but also the clockotrisic (selling the bill) interest motive. Selective paraphrasing of the original classical economic individualism (against which, in principle, we have nothing against) is vulgarized and abused. It is unknown if the aforementioned „classics“ have ever condemned the opportunistic behavior of privileged individuals who violate the law and the rights of other individuals.

Where was a Pareto optimal? And we are just talking about it, how considered highly-interest group (with their less interested satellites) fails to mention, while holding moral talks of the state, and which allegedly restricts the individuals. In addition, they are forgetting that the state is made of people, people in positions! All abstract analyzes based on the one-sidedness, uncritical absolutizations and pulling things out of context, are flawed and unscientific.

Over-expression and dominance of selective individuality (as a basic domination of economic unfreedom) in the economic reality is a sinister request of non-market enrichment in this (in many ways) time of crisis. The consequences to the population, economic growth and development, as well as the state, are huge and unforeseeable. When considering individualism, we must analyze all of its positive and negative manifestations, backlinks with institutionalization, causes and consequences of uncontrolled individualism, the boundaries of its positive and negative effects, the real level of economic unfreedom as the brakes of manifestation of positive individuality, the effect of sociopathic individualism on a high degree of economic unfreedom, the optimal ratio of individualism and collectivism which does not contradict the economic development, non-market acquired wealth as a factor of economic impact of excessive individualism, the degree of „reformist“ centralization that is a function of favoring quasi-institutional individualism, etc.

Such a complex political-economic analysis could lead to a positive progress in considering and changing the crisis economic practice. Everything else is a critic for the sake of criticism, abstract theorizing, and barren and calculated quasi-economic clockotrisism. Without objective political-economic analysis and its conclusions, and

on that basis achieved critical mass of real evolutionary competence (institutional, individual and mass etc.) implementation of economic reforms is not possible, let alone their success. We should learn lessons from the failure, and the most important is this one: liberalization is not the same as the violence against it! D. North, J. Wallis and B. Weingast (2012) have written about the violence.

Scientific-ideological and practical phenomenon of the post-socialist economic „neoliberalism“ (quasi-institutional monism) is not accidental. It has its clear sources, origins and motives. It has appeared at the time of the collapse of socialism, as a response to long-term rule of vulgarized and dogmatized Marxist political economy. Exhorted by the interest motives in practice, and in the absence of the original development concept of their own, „reformers“ have chosen a new way of vulgarization and improvisation, this time a Western neoliberalism, which protected the interests of large transnational capital, with the state border as a developmental barriers. Unsuccessful post-socialist modifications were made on other people's formulas and were functionally incorporated to support the philosophy of a big business in global and local relations (Mesaric, 2012).

Generally speaking, the majority of post-socialist countries had paradoxical results: drastic decline in all economic indicators and impoverishment of the people on the one hand and the enormous wealth of the few, including the individual proponents of neoliberalism and the „reformers“. These are indicative and irrefutable facts. Methodology of the mass voucher privatization was a very efficient and quick way to redistribute huge national wealth into the hands of small groups of individuals. Ideology (again!) again based on promises and slogans about massiveness, equality (again!), market competition, economic freedom, and the like. All this was grossly violated. After rapacious privatization and other non-market ways of enrichment, came the period of dominance of annuity-oriented behavior, whose shadow was a gray economy.

Everything was in a function of vulgarizing the philosophy of quasi-neoliberalism, based on one-sided glorification of the market, even in the aforementioned deformed conditions, which led to a significant reduction in the level of economic freedom. According to certain characteristics and forms, economic neoliberalism in the global and local level resembles to neoimperialism! Conducted under the auspices of the state, where the nomenclature of government have „clamped“ the most – this could be called a new form of dirigisme – neoliberal dirigisme!

Proof that institutional pluralism is indisputable and imperative developmental formula, has been the experience of China (1980s-1990s), with achieving very efficient and painless gradation transition from planned directive towards mixed economy, much easier than the other post-socialist countries have made a „*big leap towards the market*“ (neoliberal model of so-called shock therapy). One disastrous experiment has already been seen, where in the field of economic science (political economy) for decades were waged an ideological, interest and other fights over many superficial and irrational economic discussions. Apparently this is a proven method

of fogging the essence of economic and social problems, creating ambiguities, doubts and misconceptions for the masses, and suppressing economic logic, criticism and objective research in economic science. It is an attempt to create a new (neo-liberal) monopoly on scientific truth.

With the formation of new (fictional, virtual) forms of duality: individuality as the holy grail, but only for the privileged, rhetorics of the market with non-market appropriation, cramped and distorted market structures, and international integration with local disintegration etc. (instead of earlier commoditization of the socialist economy, with recognized commodity, but no commercial character). A new economic paradigm was not designed, merely the old one was adapted and renamed, remaining destructive, in the conditions of long-term non-replaceability of monopoly coalition party system. The neoliberal scholasticism, empiricism and narrow interest pragmatism was continued. The idea of „transplantation of institutions“ (term by V. Polterovic (2001) did not help, because importing the standard formulas for microeconomic stabilization policy, in terms of inadequate microeconomic milieu, was only a new form of economic determinism.

### **Mathematical-statistical modeling of economic reality as a substitute for political economy**

In recent decades, many economists (especially the so-called „multidisciplinary economists“) are competing in mathematical modeling of economic reality. Journals require that, because this is obviously the most important „scientific“ criterion for inclusion in the prestigious international base – so-called SSCI list (Thomson Reuters). Using fundamental research, available to the journals, we found that over 95% of the articles write about various forms of mathematical modeling and statistical regression. They often prove that surface is wet when it rains, and the research databases are also often of the cabinet and fictional character. However, we will not broaden the story, nor estimate the significance and scientific value of the selected regression relations. It is sufficient to emphasize our agreement with the general conviction that the universality of economic theory has never existed, nor could exist. As the validity of any mathematical and statistical models assumes their universality, the conclusion on their actual usability is clear. Their methodological and scientific foundation and procedures are entirely something else.

Surprisingly, some economists have received the Nobel Prizes for these and similar studies. Nevertheless, all these models and regressions have remained unsuccessful in their attempts to successfully explain the present time of economic reality, let alone to predict the future. Dynamic economic reality is quite „elusive“ for mathematical-statistical methodology and modeling. Perhaps the problem is not only in their logical paradox (no one can mathematically explain economic behavior and economic reality), but also in the methodological paradox, which is sufficiently



revealed by a simple question: How is it possible to develop a model for predicting the economic conjuncture, when a prerequisite is to know the manner in which agents predict that same conjuncture?!

Using a principle of rational expectations (which also causes concern, because „rational agents“ supposedly should know everything in advance) they tried to overcome this paradox. But, except the theoretical achievements in the spheres of abstract, high-quality practical assessments were also lacking. Behaviorists were more realistic, so their research have proved more successful in some ways and segments. Let us remember that D. North (1993) in his Nobel paper claimed that „*theories of economic dynamics do not exist*.“ Modern mathematical and statistical research do not provide a qualitative explanation of the volatility process in the economic reality. Perhaps because their attention is focused on factors to establish a balance, instead of factors to disrupt it. What can be said about the new and the unknown factors of influence, which constantly appear in turbulent economic reality, but can not be foreseen at the initial stage of analysis and prediction. It has to bear in mind the difference between the *turbulence* as an attribute of the economic system, which means the movement of their individual elements with various speed, of *volatility*, which is characterized by fluctuations in a wide range.

In addition to this is the fact that politics has always hampered and relativized the economic science as a determinant and dominator. The economics studies specific segment of life – the acquisition of goods (wealth), its distribution and consumption. It has been reduced to science of choosing a combination between a few resources and unlimited needs, which is a specific conflict, nothing less than adjusting the objectives of social justice (equality, solidarity, altruism, guarantees, determinant, coercion) and economic efficiency (inequality, market verification, competition, uncertainty, games, free). The main limitations of econometric models are availability, asymmetry and selectivity of information, and often basing on the principles of individual behavior, although the state regulation has an important role when it comes to the inefficiencies and deformations of the market (eg, external effects) and risks that must be constantly detected, identified and institutionally (primarily legally) „supervised“ and regulated.

It is known that none of macroeconomists has not successfully predicted the current and global economic crisis. Economists did not exactly predict these crisis in time nor its intensity, despite the roughly and general predictions of individual authors. And not only that: Its real causes, nature of its rapid and strong expansion, its inability to stop it fast and adequate, its inapplicability of standard macroeconomic anti-crisis models, and other, have not been sufficiently explained, even today. Does this mean that we could soon expect a review of (some) key theoretical principles of modern economic science?

But even before the frequent economic crises and tragic consequences of the global financial and economic crisis in 2008, it was clear that mathematical models, used in that moment, have ignored many important phenomena of economic reality

and social environment. Therefore, their consistency is part of the explanation of economic reality, especially the predictions of future events has been highly questionable. It was mostly denied by the events in practice. Why? Simply, objective limits are large, and all these abstract models assume that those are „normal“ periods of economic activity. All of them, in a certain way and in a certain (significant) degree, are abstracting the complex dynamics of economic systems, their potential volatility and exposure to the risks in a very changing environment. In addition, most models are relating to the assessment and insurance from the risk. But in reality, those models failed to predict, identify and/or reduce the risks.

It is known that many models have shown incorrect, empirically unconfirmed and/or inapplicable. They are mainly based on two questionable assumptions: rational expectations and representative agent. Looking through this prism, it means that methodological validity of economic science subject could probably be questioned. Clearly, people's behavior can not be mathematically modeled or predicted in some significant segments. In addition, many crucial and widespread problems and limitations in the economic reality, the economic science is simply ignoring as if they were taboos.

**Table 8. Comparative overview of scientific papers type, published in the selected journals**

<i>Name of journal/sample</i>	<i>database</i>	<i>Field</i>	
		<i>number of published papers on mathematical-statistical modeling</i>	<i>number of published papers on theoretical topics</i>
„Panoeconomicus“ / 10 issues	SSCI	63 (95,45)	3 (4,54)
„Economic research“ 10. issues	SSCI	125 (93,98)	8 (6,02)
„Proceedings of Rijeka Faculty of Economics“ 5 issues	SSCI	31 (100%)	0
„Economic Annals“ / 9 issues	Scopus	53 (98,15%)	1 (1,85%)
„Croatian Economic Survey“ 5 issues	Scopus	20 (86,95%)	3 (13,05%)
TOTAL		292 (95,11%)	15 (4,89%)

Source: Author's research<sup>4</sup>

<sup>4</sup> According to: <http://www.panoeconomicus.rs>, <http://www.tandfonline.com>, <http://hrcak.srce.hr/zbornik-radova-efr>, <http://www.ekof.bg.ac.rs/publikacije/casopisi/ekonomski-anali> and <http://www.eizg.hr/en-US/Croatian-Economic-Survey-26.aspx>.

In what degree has mathematical and statistical modeling substituted the political-economic and even institutional and other theoretical subjects, show the data in Table 8. It presents the results of the analysis on a sample of articles published in the last 2-3 years in available editions of selected economic journals in the countries of SEE, which are at the SSCI list (3 journals), and the SCOPUS (2 journals). Overall, these articles dominate with 94.72%. Results in Table 8 suggest that the mathematical-statistical modeling of marginal, sometimes banal topics from economic reality is the best recommendation for accessing databases of SSCI and Scopus. Interestingly, the works of political economy are miraculously mathematized (e.g. O'Hara, 2014, pp. 161-192). Even authors who do not know the mathematical basics or mathematical statistics, still publish their articles! Some papers on theoretical economics are so bad that should not be published (Stojanov et al., 2014).

Any further comment is redundant. However, if these papers are so good and important, why the official (neoliberal) economic policy does not use them? Without denying the scientific value of the analyzed mathematical-statistical articles, it is important that they study the marginal economic issues, and that would be the best proof of their irrelevance for economic policy. Exception may be found in apologetic terms. The elimination of political economy is just further evidence of wrong and apologetic insistence on institutional monism, where privileged and non-market rich individuals distance themselves from the abused and impoverished masses. Namely, this shows that mathematicians, economists, sociologists, psychologists and others supposedly „know“ the economic science much better (Kovacevic, 2014). No one is happy with that. This is exactly a tragedy of economic science. With long-term reproduction of the economic crisis, even the economists (in the race for publishing their works, required for larger electoral academic qualification) write papers on peripheral and insignificant relations of dependency between some kind of marginal variables, with useless similar conclusions. Instead of analyzing the essence of economic phenomena, problems and processes, identifying their causes and proposing measures to overcome them.

Though, perhaps this is only about a pragmatic need to acquire references. As far as the holders of economic science (journals, proceedings, etc.), perhaps this is about a profitable integration into the imposed global scientific trends, based on ignoring the political-economic analysis? After all, who still cares for the actual „scientific“ phenomena such as: bandwagoning in the science (so many co-authors in individual articles), writing for others, the actual conversion of the ignorant into scientists, hyperinflation of diplomas, open plagiarism deficit political-economic scientific criticism and analysis, etc.

Forcing neoliberal and mathematical-statistical research, the key issues of economic reality are deliberately ignored. This contributes to the serious crisis of economic science. Therefore, we believe that key issues of economic reality are deliberately being ignored, which contributes to a serious crisis of economic science. Of course, apologetics and mathematical-statistical modeling fully correspond to the modern quasi-neoliberal practice. The consequences are huge for society, economy

and science. Economy and society have been dominated by alternative institutions (from the shadow) over formal and informal institutions. Science is facing a degenerative process of diploma inflation at all levels, which has already worsened the situation, and will have a disastrous impact in the near future. Countries that invest little in scientific research can not expect good scientific results.

Modern economic reality can not be fully explained without detailed and consistent politic-economic analysis. They would usefully complement the new-institutional theory to thoroughly explain the essence of many issues, without interference of methodological individualism. Political-analysis would be able to provide further explanation of institutional pluralism, related to great dilemmas and misconceptions in some transitional countries.

A degradation of knowledge is one of the greatest paradoxes of our time. It broadens the range of ignorance in science, that will further boost the ignorance level. It is clear where it leads (the reproduction of the crisis) and who needs it (alibi-reformers and nomenclatures, who have enriched themselves and preserved their wealth, power and authority). Degradation of political economy is functionally directed toward neglecting the social and economic problems.

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# PREFERENCE OF INSTITUTIONAL CHANGES IN SOCIAL AND ECONOMIC DEVELOPMENT

Mimo Draskovic and Milica Delibasic

*S. Kuznets wrote that structural changes are the central element in the process of development and the most important part of the growth model. They can hinder the growth, if carried out too slowly or inefficiently, but they can also promote economic growth if the distribution of resources gets better. The article has presented the authors' attempts to present new approaches to modeling the institutional behavior of economic agents. Different approaches and views on economic growth and economic development in their application to institutional changes are considered. The descriptive method explains the hypothesis of the dominant role of social innovations (primarily institutional changes) in social and economic development. Significance of sociocultural capital in the context of contemporary knowledge economy is potentiated. The conclusion is that transition countries must use exemplary models and civilization achievements of institutional changes in developed countries.*

The opening note of this article clearly shows that most of S. Kuznets' economic ideas concerned economic growth. However, here we still need to keep in mind some other statements of the same author (e.g., Kuznets, 1996, p. 445): without political democracy and civil freedoms implementation of real institutional changes will be impossible. This obviously shows that the overall situation around economic growth is not simple and depends on many factors at the same time. Moreover, dynamic interdependencies here exist not only between the factors of economic growth but also between its key elements. We can present economic development as a sum of: economic growth, long-term prospective, structural changes, institutional changes and environmental sustainability. And interrelation of structural and institutional changes should be considered exactly in this context. Apart from this, in this article we stem from the popular today view of the neoinstitutionalists (for example, North, 2005) that institutional changes must be in priority to structural changes.

On the top of that, we will be operating S. Kuznets' ideas concerning the role of structural changes and also his rather smart idea that without the human factor/capital and the processes of its reproduction economic development simply cannot be modelled or tracked. On the ideas of Kuznets we can track the evolution in under-

standing the importance of social sphere (social structures) which essentially requires institutions and also takes part in their formation, so that later institutions can serve as regulators, coordinators and limiters of human and organizational behavior. Besides that, institutions are forming a flexible supporting structure (or set of structures) for further interaction of individuals joined into special-interest groups.

Kuznets' views have been widely discussed, supported and/or opposed, in literature, especially his idea to treat economic development by certain periods. These periods are connected to economic & technological cycles which Kuznets himself named "*long swings*" (Kuznets, 1958). Later on, another famous economist and the Nobel prize winner of 1979 U.A. Lewis called those „Kuznets cycles“ already (according to: Abramovitz, 1966, p. 520). Here we also would like to quote another of his rather interesting thoughts, namely, that „*contemporary economic growth forces us to take action so that to solve the emerging conflicts and also in relation to always newly created changes in economy and social structure... Continuity of technological innovative features in today's economic growth and in social innovations eases the necessary adaption and is probably the most important factor impacting economic and social structure*“ (translated from Russian, quote from *Laureaty Nobelevskoy premii po ekonomike*, 2007, p. 98).

Thus, we can state that Simon Kuznets was among the first (or maybe even the very first) to use the term „*social innovations*“. And in our article here we will try to analyze those so that to determine how these social innovations are related to institutional innovations. This is especially relevant and highly important for the post-socialistic countries, most of which are still having troubles with reaching a decent rate of economic growth and/or economic development. In other words, studying similarities and differences between these two notions we would like to try to explain the key reasons behind the obvious failures of post-socialistic reforms. At this, we initially assume that one of the key reasons for these failures is the deficit of institutional changes (institutional innovations), to which – probably – also belong social innovations. This deficit has led to many contradictial or even paradoxal phenomena and also so-called pseudo-innovations (which proved to be not temporary, as it was believed earlier (Polterovich, 2012), moreover, they directed the transition process into a long-term and complex crisis).

Many authors are applying the institutional approach when studying social capital. In this way they are able to discuss means and methods with which formal and informal institutions influence social capital accumulation in the society or a social group. Studies of many authors have already proved that sustainable economic development is possible only under close partnership and cooperation of private business, society and the state. At this, the state is not only creating social benefits but it also helps forming long-term and efficient alliances of various social groups and strata. In the countries with well-developed institutional pluralism there is always strong social consensus which is essentially the balance of interests of various social classes and groups when it comes to social product distribution, setting the minimum wage, transfer payments' allocation etc. This social consensus guarantees there exists a



certain level of social welfare which further promotes investments' growth, better investment climate, high rate of economic growth etc.

And again, S. Kuznetz (1995) studied the relation between economic growth and social inequality. While studying this relation it is important to pose the following questions: what is the role of the state (represented by political and tax authorities) in wealth distribution? And what is the mission of social capital in this regard? There can be many answers to that, actually. Some researchers outline four vital elements in these relations: social networks, general norms, values and trust. Some other scientists are of the opinion that three elements are needed for institutional relations – social networks, general norms and convictions, and also two factors more are necessary for social capital formation – trust and rules (at all social levels). Another additional factor of important influence is also experience (see Figure 7).

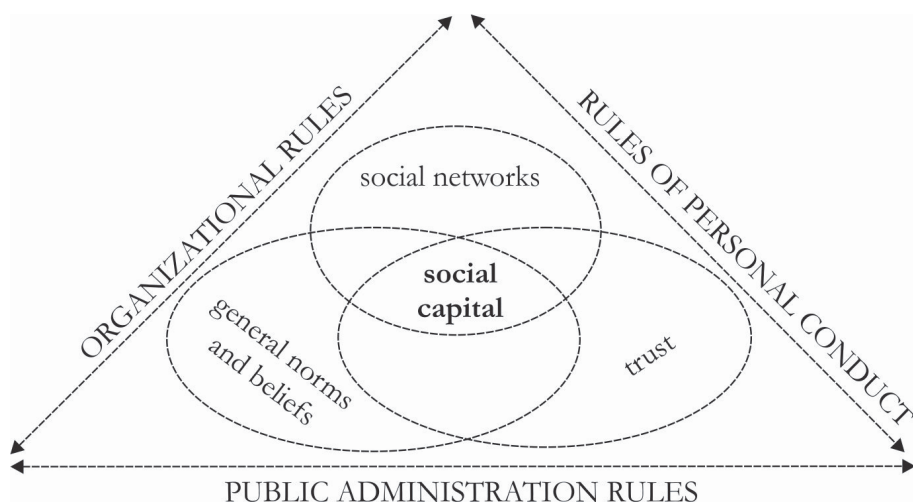


Figure 7. **Social capital components**

Source: V. Draskovic, R. Jovovic, M. Draskovic and B. Jereb, 2013, p. 124.

### **Theoretical approaches to the role of social innovations (institutional changes) in economic development**

As of today there is a general consensus in scientific circles concerning the overall importance of institutions and their leading role in the development of national economy. But what is exactly their role and how relevant it can be in relation to different levels and rates of economic development – this still needs to be studied in more detail, since despite quite intensive theoretical research and availability of substantial empirical material, there is still no clear understanding why institutions

are so important for economic growth. One of the possible reasons for this gap in the related research is lack of theoretical basis for application of institutional notions and also the impossibility of measuring exactly (that is, calculating) the influence of institutions. As well noted by D. Acemoglu (2009) it can be partially explained by the fact that very notion of institute is defined in literature (see, for example, Greif, 2006; Hodgson, 2006) as too broad, and the range of institutional forms and manifestations is also too broad, thus, it is rather difficult to allocate them a specific place as applied to economic results.

Institutional changes and economic growth are, most probably, the most important components and preconditions for economic development. However, this leads us logically to a question regarding casual relations here: what is causing what in these relations, what is the cause, and what is the consequence – institutions or development? These questions remain open for quite a while already. However, there is a popular opinion that institutional shifts go first, then follows development. Another, and also popular, opinion is that development determines the institutions (which are in some sort of compliance with the actual level of economic system development). Both options are equally convincing on paper (Chang Ha-Joon, 2005, 2011). The very history of many developed countries supports the second variant, actually: in these countries the achievements of economic development opened the way for further modernization of many institutions and formation of the institutional system as such, and the latter quickly became relevant not as much to the developed economy, but more to the very strive for further economic development, thus forming the need for further economic growth (Yerznkyan, 2013). Taking this into account, we also need to note that the view on high and stable rates of economic growth as the key factor of general social welfare increase and stabilization is not only popular but also has solid empirical support. Besides, this view also complies with the central ideas of Kuznets' teachings.

Representatives of the new institutional economic theory (North, 1981, 1990) have already provided enough proof that pluralistic, politically desirable and legally protected institutional environment predetermined long-term economic growth. In other words, stably high rates of economic growth are not causing institutional changes, on the opposite – they are the consequences of these changes. Rapid changes in economic realia of the two recent decades, predetermined by exponential technological and organizational changes and also by some of the global processes, have lead to paradigmatic modifications in the economic growth model.

The neoclassical model of growth by R. Solow (1956) emphasized the key role of technological progress, and its author added to the already existing models (which used to emphasize the role of physical capital and laborforce) the technological factor. According to his calculations, technological factor predetermined about 4/5 of growth in case of American economy when calculated per one worker/employee. R. Lucas (1988) emphasized the role of human capital, while R. Barro and Sala-i-Martin (1997) described the meaning and role of technological diffusion. R. Barro (1990) also studied the role of social infrastructure, while P. Romer (1990) described

the role of innovation stimuli etc. The contemporary theories of economic growth mention the following key decisive factors: institutions, innovations, information (and some other) technologies and intellectual/human capital. This means that here we can talk about the „*model of four*“ which reveals the causes of economic growth (Delibasic, 2014, p. 9).

As presented by D. North (1997, p. 17), institutions are the „game rules“ for the society. Or, speaking more formally, they are the limiting framework established by the people so that to organize and regulate the relations between themselves. Therefore, these rules/frames are shaping all further incentives for human interaction in any field – politics, social life or economic activities. In other words, this capacity of the institutions to shape and structure social stimuli tells us, simply speaking, that any possibility of free individual choice is, to a large extent, predetermined and limited by institutions. Social (including political, traditional, moral, cultural and other) as well as economic institutions are directly and indirectly influencing on the structure of economic incentives inside the society. D. North assumes that interpretation of institutions can be actually two ways: institutions as informal limitations in a society (generally accepted norms, rules and certain code of conduct) or institutions as formal (that is, created and introduced by people) rules.

Informal institutions have the determining influence on our behavior. As same D. North one wrote, the latter is to a great extent determined by the unwritten codes, norms and formalities (Ibid., p. 56) which usually emerge from the information transmitted via certain social mechanisms and are part of that legacy which we call culture (Ibid., p. 57). Cultures as our heritage are able to explain why formal institutes, under different circumstances, can lead to rather different results. Formal institutions (or, as D. North calls them – rules) include political (and legal), economic rules and contracts. These rules have their own hierarchy – from constitutions to statutes, then to legislative acts and regular laws, then go decrees and orders, and finally individual contracts and agreements. This overall hierarchy of rules poses both general and specific limitations (Ibid., p. 68). D. Acemoglu, S. Johnson and J. Robinson (2004) proved, in this regard, that societies with the economic institutions which promote the accumulation of innovation factors and increase the efficiency of resources' distribution, have more chances to reach prosperity, and vice versa.

### **The accompanying concept of sociocultural capital**

Human is a social being and an inseparable element of social environment. This is why any human is motivated not only by his/her own interests but also by habits, traditions and rituals, changes in the society etc. Institutions are also important components of the same social environment.

The concept of sociocultural capital (sociocultural factors and social relations) explains the role of individual and organizational social relations, collective actions

and social integration as applied to development. Sociocultural capital as a set of mostly informal institutions and social habits (which are certain ethical, cultural, religious and civilizational values) predetermines all social changes – and thus, also predetermines social and economic development (Acemoglu et al., 2003; North et al., 2009; Fukuyama, 2004, p. 21; Patnem, 1996, pp. 207-209). However, if this sociocultural capital is under the dominating influence of public authorities – it can quickly become its own complete opposite – the barrier to development, because economy and politics are closely interconnected in real life and tend to absorb the sociocultural capital, as stated in (Fukuyama, 1995, 2001).

Sociocultural capital includes knowledge, with its complex of normative means for knowledge integration and identification, development, education, organization, communications etc. Sociocultural capital has the capacity to mobilize and combine the capacities of individual and collective subjects. In its traditional meaning, sociocultural capital is defined by the following factors: morale, ideology, culture, religion, political regime, authority and trust to authorities, history of institutional changes, social connections, knowledge and investment in knowledge (and/or in human capital) etc.

This set of immaterial social resources is essentially the environment surrounding and connecting both formal and informal institutions. Such comprehensive understanding of the notion „sociocultural capital“ may serve as a methodological and analytical connection between the notion „social innovations“ and „institutional innovations“ (which are essentially institutional changes). Disregarding all their similarities and differences, we are of the opinion that the deficit of all these innovations has led to evolutionary crisis during the transition phase in the post-socialistic countries and thus has also led to restoration of some sort of quasi-institutional monism (which is also quasi-market-oriented and quasi-liberal).

Due to mostly neglected role of sociocultural capital during the whole transition stage in the post-socialistic countries, their economies and societies found themselves following some sort of anti-development model which is essentially very paradoxical (Draskovich et al., 2016, pp. 103-111). Why did this happen? Because the quality of sociocultural capital determines the level of real institutional changes. It is sociocultural capital that provides sustainability to all institutions and development overall. Institutions as the standards and regulators of individual behavior are determining the general direction of socioeconomic development. Together with people, institutions are important components of social environment.

There is enough empirical material and detailed research to prove that in the majority of post-socialistic countries institutions have been developing very slowly, often insufficiently and also illogically, moreover, they were often under the influence of alternative institutions. Many authors, including (Draskovic, 2014; Draskovic et al., 2015; Delibasic, 2016; Draskovic, Draskovic, Bilan and Delibasic, 2016) see the major precondition for such development in the anti-productive and anti-civilizational development of sociocultural capital as well as in parallel domination of al-

ternative (shadow) institutions, the latter getting only stronger due to growing dominance of narrow, personal incentives over the truly social interests.

Therefore, we have no doubts that the deficit of institutions is the major limiting factor in the potential development of sociocultural capital in these countries, thus, it is also a limiting factor for their socioeconomic development. Subjective (alternative, and in some radical cases – simply criminal) institutions tend to ignore institutional norms of behavior and all institutional changes as such. Dominance of these alternative institutions in the society proves there can be institutional irrationality (Draskovic, 2014; Delibasic, 2014).

So, the key question is: who is to be blamed for this deformation of institutional structure and/or for institutional underdevelopment which hinders all further development? Different authors suggest different answers to this question, however, the most known and acknowledged economists (e.g., North, 1981; Denzau, North, 1994; Friedman et al., 1998; Acemoglu et al., 2003; North et al., 2009) mention in this regard the destructive nature of institutional imitations and some sort of “government improvisations”. Most of these authors are of the opinion that it is necessary to reduce and control the dominating influence of politics over economy, moreover, institutions are supposed to dominate both – political and economic life.

It would be quite appropriate to mention here M. Mann (2014) who proved that actions of central authorities in underdeveloped countries are predetermined by an intricate combination of political, economic and ideological sources. So, how did this happen? Public authorities indeed have been using the neoliberal model, but only with the ideological purposes! Economic neoliberalism has made the institute of public regulation the key enemy of the society.

Economic radicalism is now being implemented under the slogan of “minimum intrusion of the state”. In fact, the market is mostly being ignored, except for those cases when specific interests of some small privileged groups must be followed. Market today is being substituted by the distributive coalitions and raider ideologies of quasi-neoliberalism (Draskovic, 2010, 2014; Jovovic, 2012; Draskovich M., Draskovich V. and Bilan, 2016). And these small groups of the most privileged are parasiting on public policies’ use in their own interests, substituting the real market mechanisms by the monopolistic quasi-competition and semi-legal acquisition of public property. Thus, these small groups are using non-market methods for own enrichment, and this lead the majority to perceive public authorities, all public policies and actions as the acts of “*predatory state*” (Marcouiller and Young, 1995).

This perverted individualism of the few most privileged has quickly found its own placed as a socially approved norm. This, in turn, has lead to quick spread of opportunistic behavior, network corruption and other forms of alternative social institutions. Some authors (e.g., Landes, 1998, p. 516; Draskovic, 2014, p. 22) explain these trends by the underdevelopment of sociocultural capital. Moreover, further spread of these alternative institutions has led to further erosion of sociocultural capital and as a result – to constant reproduction of economic and social crises, with

already typical accompanying consequences: value crisis in the society, dogmatism, negative selection, poverty, inequality and unfair selection, neglect of legislation, inflexibility of public bodies to change etc.

### **Economic development under „knowledge economy“**

Within the „knowledge economy“ (also known as „new economy“) the role of intellectual component of capital is growing every day. Information as the most obvious intangible factor today predetermines the use of new communications and their convergence. This, in turn, leads to society consolidation in many fields of economic and social activities. The growth of information economy has its own, new organizational logic which is preconditioned by the ongoing process of technological change. Introduction and full functioning of knowledge economy has certain preconditions, namely, there must be national guarantees for social freedom, and also well-developed system of education, high quality of institutional environment overall and very specific rules of doing business, as well as reasonable balance between state control and market freedom. Lack or underdevelopment of any of these components make „knowledge economy“ just a vox, and nothing else.

Today, in the era of knowledge economy, any national economic policy must rest on the following core principles:

- development of sciences and technologies must be the core factor of economic growth;
- favourable investment climate must attract investments, and mainly into the top-priority high-tech sectors;
- institutional environment must be flexible enough in all sectors of the economy (the so-called institutional pluralism), especially when it comes to national regulation which must be always ready to respond promptly and adequately to market failures, especially when these failures are somehow related to education and science;
- competitiveness of production capacities must be supported by means of stimulating innovations related to higher performance and/or labor productivity;
- human resources at key productions must be timely and adequately retrained so that to be ready to respond to risks, sudden changes and crisis;
- all new organizational changes must positively contribute to the economy, social life and/or legal field.

The overall structure of knowledge economy consists of human capital, information and communication technologies, innovations and some other components (for more details – see Figure 8).

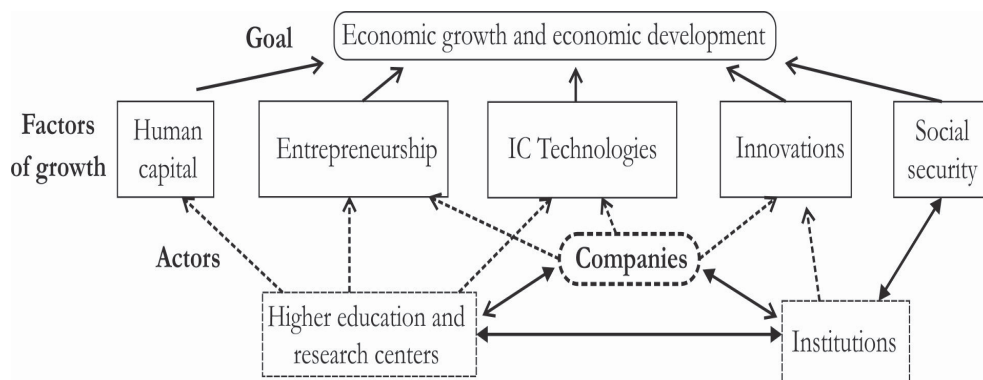


Figure 8. The model of economic growth and economic development under „knowledge economy“

Source: Cornett, 2009, p. 405.

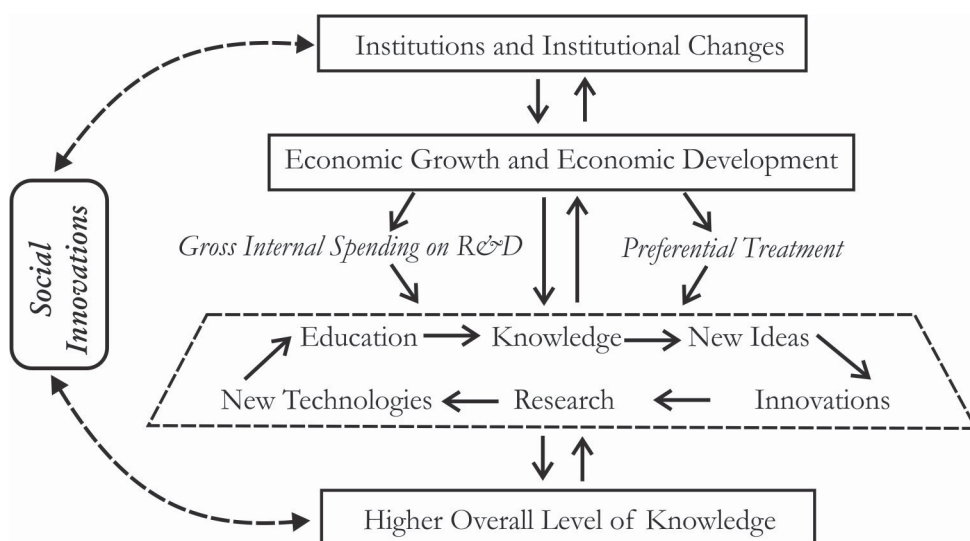


Figure 9. Social innovations and the development formula within “knowledge economy”

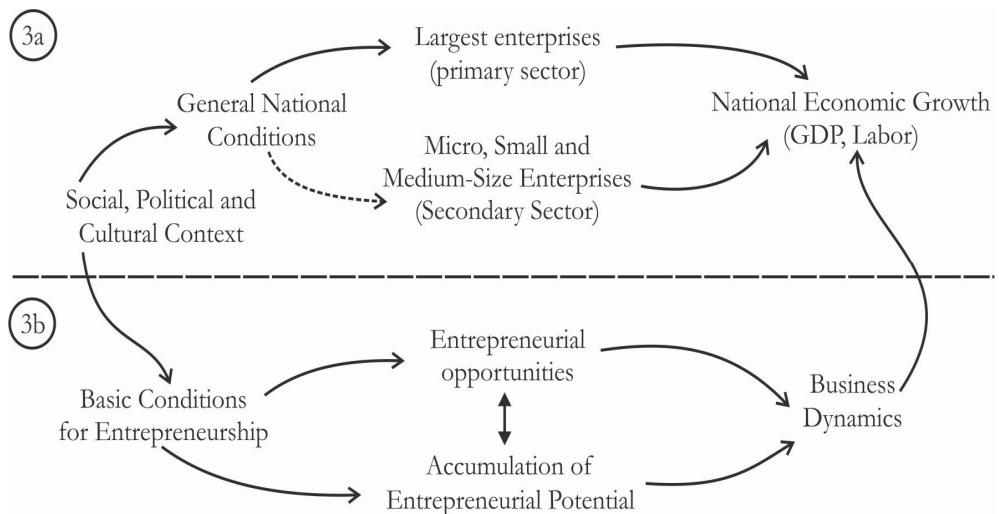
Source: V. Draskovic, R. Jovovic and M. Draskovic, 2013, p. 17

Factors with dominating influence on economic development (according to our literature review) are presented in Figure 9. As we can see, stable development depends on a whole range of driving forces, including: access to human capital, quality and rate of innovations, availability of soft and hard infrastructure, current rate of

welfare, institutional structures and finally, entrepreneurial activity (Cornett, 2009; Naudé et al. 2008; Audretsch and Keilbach, 2004). Assuming that the following statements are true:

- institutional development has its positive influence on economic growth and economic development;
- economic development directly (through better motivation and more active investment in education and science) as well as indirectly (through creation of better living conditions: high wages for researchers, scientists and engineers; better communications and more access to information and statistics etc.) influences the growth of expert knowledge and innovations, we can make a conclusion that there exist indeed strong interdependencies and feedback relations, as demonstrated in Figure 8 (social innovations are shown with curved arrows).

The dependence „institutions – economic development – investments in knowledge – innovations – increased level of knowledge“ can be analyzed and interpreted in many different ways, however, their mutual dependence is already real and meaningful in today's economic reality, and for this matter we are indeed living in the times of „knowledge economy“. The conceptual frameworks of GEM have been defined in 1999 (Figure 10), and unlike more traditional models of national economic growth, the former clearly shows that national economy's growth is the results of human efforts and availability of opportunities to take these efforts. It also shows that this process is taking place in the interaction with the environment.



**Figure 10. GEM's conceptual model of economic growth**

Source: Reynolds, 1999, pp. 9-10; *Global Entrepreneurship Monitor 2014 Global Report*, pp. 13-14.



Many theoretical and empirical studies have already discovered and proved there exists a direct correlation between institutional development of a country and its economic development (D. North, D. Acemoglu et al.) as well as between the level of knowledge and economic development. On these grounds we can assume that it would be logical to unite the cause-effect relations here: development based on knowledge (and investments in knowledge), institutions and their changes, economic development and economic growth – and this article we presented this graphically, inter alia.

This constant interconnection of various spheres – institutional, economic, social, cognitive etc. – is the necessary precondition for the formation of some sort of platform for further modelling of institutional behavior of economic agents. This modelling is supposed to be adequate to the actual real situation, specifically – in the countries of post-Soviet and post-socialistics space. At the same time, such modelling attempts must not be limited to economies in transition only. We assume that modelling of institutional behavior of the economies would have some common features, regardless the history of a country and the level of its economic development.

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# QUASI-NEOLIBERALISM AS QUASI INSTITUTIONAL MONISMS AND CAUSES OF THE CRISIS IN SOUTH-EASTERN EUROPE

Mimo Draskovic and Milica Delibasic

*The paper explores phenomenology of the transition crisis in the Southeastern Europe (SEE) is analyzed on theoretical and rhetorical level (model-neoliberalism) and the level of its practical manifestations (quasi-neoliberalism). Quasi-neoliberalism as a serious social challenge, and the response to that challenge. This paper discusses the function, importance and necessity of applying institutional pluralism, that represents exemplary and civilization model of sustainable economic development. It criticizes all forms of quasi-institutional monism. Their disastrous consequences are pointed. Its hypothesis is that the basic cause of the quasi-neoliberal strain generated through opportunistic behavior, dominant impact of alternative institutions, as well as abusing of the public institutions regulation. The conclusion verifies the starting hypothesis and suggests the imperative need for applying institutional pluralism as civilization indicators of economic and social development.*

In the opinion of many authors (see eg. Mesaric, 2010; Stojanov, 2012; Draskovic, V. and Draskovic, M., 2012; Delibasic and Grgurevic, 2013; Draskovic, 2016) neoliberalism (as an ideology, doctrine, philosophy, theory and metaphor) in global and local boundaries manifests itself as an immoral, inhumane, brutal, chaotic, crisis and hegemonic system (order) of power, governance, violence, exploitation and greed. This is the time when everything is relativized, thanks to neoliberalism, paradoxically and ironically, due to interests and rhetorical absolutism of freedom and market. An alibi-neoliberals are placed in the position of neoliberal metaphor! It seems like amorphous, monotonous, orchestrated anti-state, anti-national and anti-development bluff, rooted in a patronizing state levers! In this sense, the above mentioned authors (Ibid) believe that neoliberalism in practice has turned into a quasi-neoliberalism. Its manifestations are essentially institutional nihilism (Draskovic, V. and Draskovic, M., 2012), negation in terms of formal and informal institu-

tions, affirmation of alternative institutions, and the institutional fundamentalism (Rodrik et al., 2004) .

One of the most important and the strongest driving forces of modern civilization is institutional pluralism, respectively: mutual connectivity, causality and dependence of the market economy, which basically contains private enterprise and private property, and of the developed and of the flexible government regulation. V. Draskovic (2010, p. 18) has already pointed out that *“the story of pluralism (of interests, politics, democracy, freedoms, media etc.) has been replaced by the materialistic cynicism of the newly-composed ‘elites’, party centralization and nearly total control (over political and economic processes), which enabled privileges, enrichment of organized minority and impoverishment of the unorganized majority”*.

D. North (1981, p. 32) emphasized the importance of the institutional structure, which included institutional pluralism. Many studies have shown the direct and indirect link between institutional pluralism and economic development (Radovic, Zugic and Milovic, 2013; Draskovic, 2016). However, in underdeveloped SEE countries, neoliberal economic policy is applied, which encourages market-regulation (institutional monism).

Theoretical approach implies that using is a measure of economic policy in all cases of inefficient market regulation, when economic growth and sustainable economic development are at risk (Draskovic and Delibasic, 2014). For more than two decades, most of post-socialist countries were lacking such interventions. Therefore, economic policy in this period, at first glance, cannot be called a crisis. But practice shows the opposite. These authors suggest (Ibid) state the following: complication of economic problems, erosion of public property and its transferring into possession of few individuals (making illegitimate profits), social stratification and pauperization of the population, high unemployment, proliferation of black and gray markets, creating numerous economic imbalances and threatening deficit, erosion of economic structure, dominance of party and private monopolies over economic development, criminalization, accumulation of socio-pathological phenomena, etc..

After two and a half decades of writing and critical analysis of neoliberalism (Lakic and Draskovic, 2015; Draskovic, 2016; Simionescu et al., 2016), which resulted from a negative attitude towards the serious consequences that has produced in practice, seemingly without risking the potential errors, I came to the conclusion that neoliberalism is merely a metaphor that conceptually generates a conglomerated complex and contradictory context, which has its own doctrinal, terminological, institutional, developmental, cognitive, strategic, interest, redistributive, ownership, civilizational, geopolitical and ideological meaning and numerous practical quasi-manifestations. Why? V. Draskovic (2014, p. 6) gives the following answer:

- the term “metaphor” covers a very wide range of phenomenology of neoliberalism, and consists of many paradoxes, contradictions, scams and myths,
- neoliberalism exists between two levels: rhetorical propaganda for creating an illusion, and practical restraint and control of change and freedom,

- everything is conspiratory, and programmed for the purpose of greedy and non-market enrichment and strengthening power, without limits, and
- neoliberalism looks like meta-phor (meta fraud) of its creators.

The aim of this manuscript is to point out (Draskovic, 2014; Delibasic and Grgurevic, 2013; Draskovic, 2016):

- neoliberal causes of the permanent and crisis transition, which caused major problems and deformities, and created a new dogma with uncertain lifetime,
- creation of a quasi-institutional conditions that have enabled the introduction of new elitist (to a certain extent and sense of totalitarian) system under the mask of neoliberalism,
- the fact that forcing model of quasi-neoliberalism is a privilege of unreasonable and/or highly interest oriented “reformists”, because delaying changes means delaying development,
- the difference between rhetoric and practice, i.e. between the story of liberal democracy (which promotes the rights of individuals, human and social freedoms and human rights, as opposed to collectivism, totalitarianism and authoritarian policies) and quasi-neoliberal economic policies (global and transitional), that were dominant worldwide and paradoxically violates all liberal principles,
- use of state as a screen for expressing expansive nomenclature interests and non-market appropriation of its significant resources.

The aim is to point to the existence and functioning of the vicious circle of crisis (global and transitional), created by the following relation: theoretical neoliberalism as an institutional monism - its vulgarization, dogmatization and subjectivity in practice - through manifestation of freedom of operation and connectivity of supranational and national elites – “tycoonisation” and the criminalization. Mentioned relation has been maintained by paradoxical contradictory between rhetoric of universalism (pluralism) and its practical reductionism (quasi-monism) – Draskovic, 2016.

### **Neoliberal apologetics**

Messianism of economic neoliberalism as an incarnations of infinite market power and the “ideal” way of organizing the economy, is actually institutional and monistic myth. It is based on a system of discriminatory and double standards: rhetorically shaped fruitless imagination and practical implementation of narrow individually motivated interests. The matrix that connects ideological indoctrination, interest orientation and reactive rhetoric, still reproduces in the time of crisis and quasi-institutional space (Neale, 1987; North, 1990; Greif, 2006; Acemoglu, Johnson and Robinson, 2004). V. Draskovic (2010, p. 18) has criticized “*rhetorical neoliberal mask of the market, competition and freedoms, the politics and strategy of ‘reformers’ were oriented toward non-market process, motivated strictly by individual*

*interests, instead of propagated social and economic results". In that sense, he (Ibid.) believes that the "social and human values were degraded. Everything or nearly everything was out of control. Incorrect and retrograded processes were abundantly materially awarded, and social and economic results were catastrophic. Focusing on the process and neglecting results is possible only in the conditions of institutional under-development".*

Methodology of apologetics, whose vicious circle have always coincided with scientifically vulgarization (conscious and interest-oriented). Some of the features of apologetics are fiction, likeability, generality and methodological inconsistencies, selective application of the theory (method of double standards), ideologized, interest background, distance from many current problems of economic reality, paradoxicality, and contradiction. Neoliberal economic model is one thing, but completely different thing is the model of its interpretation and propagation by certain economic and property post-socialist "reformers", especially its harsh, non-critical, radical, non-selective, vulgarized and high-speed radical "shock therapy" (Stojanov, 2012) practical application in terms of inadequate microeconomic and underdeveloped institutional environment. Facts convincingly show that the neoliberal ideas have been propagated far more than they have been implemented in transitional countries. Doctrine of neoliberalism is based on assumption that the distribution of social and collective action will be enhanced by reforms, and market reform should create benefits to the whole society and that it represents a long-term public good. It is obvious that the mass is replaced by privileged individualism.

In reality, neoliberalism separated from its scientific and philosophical heritage, which has become a reactionary tool of the elite (class of non-market enriched individuals, who have appropriated the results of many generations) and the ideology of limitless power of big capital and business, which has destroyed the middle class of society, allowing freedom of exploitation. All neoliberals (politicians, economists and others in the government and close to it) say they are democratic, freedom-loving, tolerant, development-oriented, pluralistic in everything (Yerznkyan, 2012), not just in one – they absolutize alleged "neoliberalism" but they do not see its alternative (thus negating choice as the essence of democracy and economy). Propaganda of "absolute truth" is always a prelude to apologetics.

Sophistic stopgap and sophisticated quasi-neoliberal rhetoric and practice have generated original methods of organized use of privilege: marauding privatization, concealer (inter-commune) economy, "economic clockotism" (term of V. Draskovic - in terms of "smoke and mirrors") and protectionism against his own people. Their mission continues in conditions of extremely reduced market and "entrepreneurship" based on further robbing of the state and reproducing the non-market acquired wealth.

We will mention two typical regional neoliberal "pearls", which are distinguished by their non-scientific, tendentious, demagogic, declarative and defensive apologetics. *First*, it is emphasized that there is alleged ideological struggle between libe-



ralism and protectionism, liberals and dirigism (anti-liberals – Osipov, 2012). We believe that this is not true, but that it is about monistic, interest and metaphysical simplification and that there is a conflict between the quasi-neoliberal and representatives institutional pluralism (Yerznkyan, 2012; Draskovic, 2016). *Second*, alibi-neoliberals talk about ignorance - thinking of local economists who criticize neoliberalism. V. Draskovic (2014, p. 13) talks on these charges in the following way: *“Analysis of the consequences of the neoliberalism application do not require a great knowledge. A lot can be seen with naked eyes and a lot has already been written. They utterly ironic ‘recognize’ that this is a struggle of interests. But they fail to explain who that is, how and to what extent he has realized his interests, and the fact that the interests of the majority is a survival, and interests of the neoliberal ‘reformers’ are non-market enrichment without limits and with all familiar accompanying negative effects”*. Unlike the neoliberals, we believe that the main malfeasants are quasi-neoliberals.

### **Quasi-neoliberalism = quasi-institutional monism**

It sounds paradoxical, but quasi-neoliberalism in particular manifestations (monism, privileges, dictation, etc.) resembles the elitist dirigisme. When interest orientations overwhelm and distort institutional actions (as agreed upon rules of conduct). This leads to avoiding institutional control, deformation of institutional competition, ignoring institutional pluralism and forcing quasi-institutional monism. If we ignore institutional pluralism and/or put the individual (closely grouped) in control, if we reduce institution rhetorically to monism or practically to quasi-monism, then occurs the possibility of abuse, ignorance, oppression and converting to their opposite - a quasi-institutions. Then occurs a blockage of institutional change, the destruction of institutional synergy and institutional competition. Counter-productive institutional monism is inevitably and quickly transforming to a variety of pathological forms, making a quasi-institutional matrix. It is largely determined by the parties in power, which participate in creating and strengthening distributive coalitions, monopolizing all aspects of life, cartelling the market and in turn influencing the public policy. This enables illegal and non-market appropriation of the state property. Rent-oriented behavior expands.

The new „elite“ have no interest in strengthening institutional power of the state. This creates a vicious quasi-neoliberal circle of anti-institutionalization. Elimination of institutional competition leads to elimination of the market competition and deformation of economic institutions in the market regulation. This further leads to suffocation of economic freedom, entrepreneurship and natural market functions and principles. Affirmation of non-market behavior, with the blessing of neoliberal economic politics, stimulate rapacious appetites of the privileged nomenclatures, which take control over the institutional ownership. In terms of unprotected and unspecified property rights, manipulative redistribution is enabled in larger scale.

Neoliberalism as a philosophy of methodological individualism (Kirdina, 2015) has proven to be very suitable for building specific and dogmatic theoretical platform. It served as a motto for fast and non-market acquisition of wealth, power, and economic freedom of the privileged, whom alibi-economists often equated with “*effective owners*”. Since the process of enrichment was not innovative, or productive, or inheritance, or of market character, it was a reflection of the extremely rapacious accumulation (with no risk). Therefore, it is clear that minorities got what population and/or state lost. Weak institutional changes in countries SEE, and extremely expressed institutional vacuum, allows the existence of many quasi-forms (imitation, substitute and improvisation), such as:

- institutional monism (“messianic” uncontrolled market without parallel formation of complementary institutions – Polterovich, 2012),
- meta-institutionalization (creating a superior and complete control of the institutions) and
- quasi-institutionalization (paternalism, monopolies, lobbyism, social pathology, gray economy, rent-oriented behavior, naturalization, street currency conversion, the dominance of politics over economics, rapacious privatisation, privileged “new entrepreneurs”, etc..) – V. Draskovic and M. Draskovic, 2012, p. 202.

Quasi-neoliberals have maximally relativized the contrast and paradox (apparent, imposed) between individual and institutional. Paradox of this combination individual vs. institutional is just an illusion and delusion of quasi-neoliberals, because in reality their non-exclusivity is actual generator of that combination. M. Delibasic (2014, 2016) criticized the deficit of real institutional changes and opportunistic behavior in the following way: instead of pursuing the real institutionalization, violence against it was carried out, under the banner of spreading of individual freedoms. The fact that when freedom lacks moral, legal, environmental and other social restrictions, greed becomes the boot drive for the enrichment of individuals at any cost was forgotten. Economic behavior in practice is far from the regular norms and rules because it is controlled by subjective regulators. Distorted and reduced individualism is being imposed as social and civilization norm.

In this regard, V. Draskovic, and M. Draskovic have always, in their works advocated for institutionalized individuality, which should be massive, and not a single phenomenon of privileged and/or socio-pathological origin. Institutionalized individuality involves the application of the value and law criteria. This means that they were against all forms of vulgarized individuality. At the same time, Draskovic (2014, p. 82) implies that “*individual and collective are inseparable components of the most institutional arrangements and overall institutional order in modern developed economies*”.

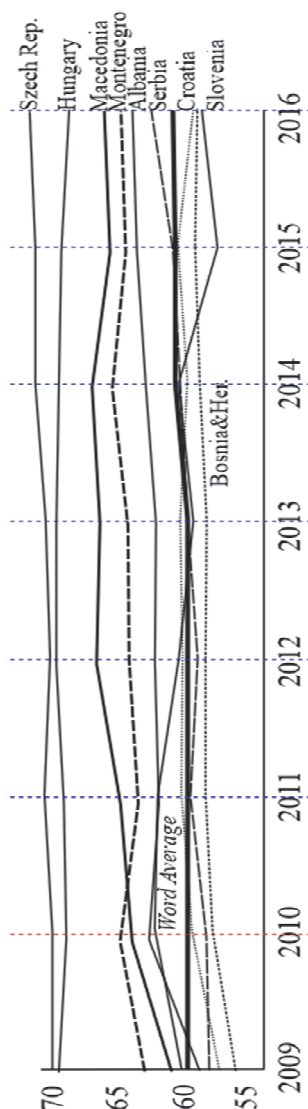


Figure 11. **Index of economic freedom in the SEE countries and for selected countries in transition 2009-2014**

Source: <http://www.heritage.org/index>

We don't deny the need and inevitability of the market economy. But the problem is proven in practice, where market and quasi-market experts a detrimental monistic super-dominance over all other economic and social institutions. Institutional infrastructure has positive and synergistic influence only when it is complete. Wit-

hout complementary of economic institutions, a successful and rational coordination of social and economic development is not possible. Violation of institutional complementarities, institutional changes and institutional competition, has led to institutional confrontation and monistic favoritism. This has created a number of blockades and delays, which prevented the social and economic development, collapsing the economy and social order. Figure 11 shows that there has been some increase in economic freedom in the countries of SEE. That level is significantly lower than in some transition countries (Czech Republic, Hungary), and it is similar as in Croatia and Slovenia.

It is paradoxical that progress in economic freedom was achieved, but it was not accompanied by economic performance (Table 9). In particular, this applies to Macedonia, which has the greatest degree of freedom from all the SEE countries.

**Table 9. The Average Annual GDP Growth Rate 1996-2015 (in %)**

Country	2009	2010	2011	2012	2013	2014	2015
Albania	2,2	3,0	4,0	1,6	1,4	2,1	2,2
Bosnia and Herz.	- 3,4	0,5	2,0	- 0,5	1,5	2,0	1,1
Montenegro	- 5,3	- 0,5	2,5	-2,5	3,3	2,6	1,8
Serbia	- 3,0	2,0	3,0	- 1,6	1,5	2,0	0,8
Macedonia	- 0,7	2,0	2,8	0,8	1,7	2,2	3,8

Sources: <http://www.tradingeconomics.com>; <http://www.worldbank.org>;

Annual GDP growth rate in the SEE countries in the period 2009-2014. were generally negative, or in the range from 1.4 to 3.3%. They were 3-4% lower than the rate in the period that preceded the global economic crisis (Figure 12). Output losses had a direct impact on the growing increase in unemployment, which reached great proportions and the average for the SEE is 24.5%, which is twice as more than in the EU. Unemployment is above the above average in Kosovo (43.5%), Macedonia (31%) and Bosnia and Herzegovina (27.5%). In the same period, public debt has increased significantly in all the countries of SEE. In some countries even more than double: in Serbia, it has increased from 29.2% to 59.6% of GDP, while in Montenegro, from 28.7% to 59.6% (<http://www.javnidug.gov.rs>, <http://www.indexmundi.com>, <http://www.cb-mn.org>).

The economic recession was followed, consequently, with an increase in poverty and inequality. Poverty is associated with unemployment, and is the largest in Kosovo (80%), Albania (60%) and Macedonia (41%). The World Bank estimates that 33% of the population in SEE live in poverty and 8% live in extreme poverty. All

these are additional indicators of weaknesses in the institutional system in SEE countries.

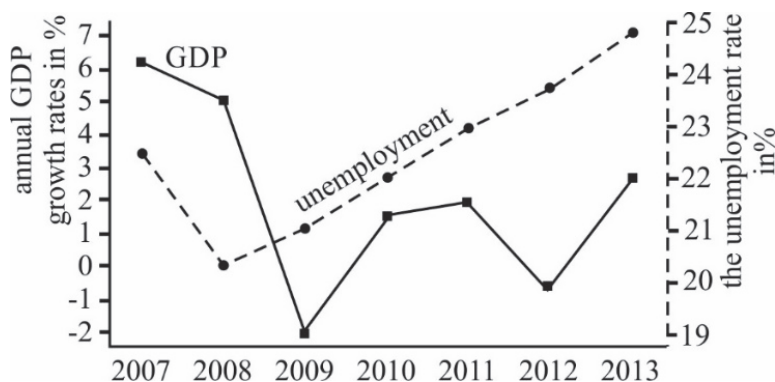


Figure 12. Annual GDP growth rates and unemployment in the SEE region 2007-2013

Sources: www.imf.com; national statistics

Very bad results were achieved of long-term “*pathological neoliberal model*”, mentioned by M. Mesaric (2012, p. 21). The level of unemployment and public debt are high, production and exports are low, living standards also, social inequality and discontent are high, and the crisis has turned into a long-term constant. Neoliberalism did not limit violence in society. On the contrary, it helped its expansion. According to D. North, J. Walis and B. Weingast (2009) violence include various forms of social pathology: the non-market appropriation of rents, buying votes, corruption, exploiting privileges, coalitions of interests, ignoring the masses, etc.).

The above authors have come to the conclusion that it is possible to achieve to political manipulation of the economy in order to build a privileged interest groups and anti-institutional incentives by political and economic competition. This occurred in the conditions of neoliberal implementation in countries with a policy of “*limited access*”, where some organizations and groups of elites were pulling the rent due to their privileges and some tacitly “*special rights*”. Those “rights” are created in an institutional vacuum environments, characterized by personal relations and “strings”. Hence, the order is unstable and volatile, the politics is connected and dominates the economy, a minority (elite) manages the masses, informal and alternative institutions (which are extremely personified) dominate, and organizational structures are very unstable (V. Draskovic and M. Draskovic, 2012; Delibasic and Grgurevic, 2013).

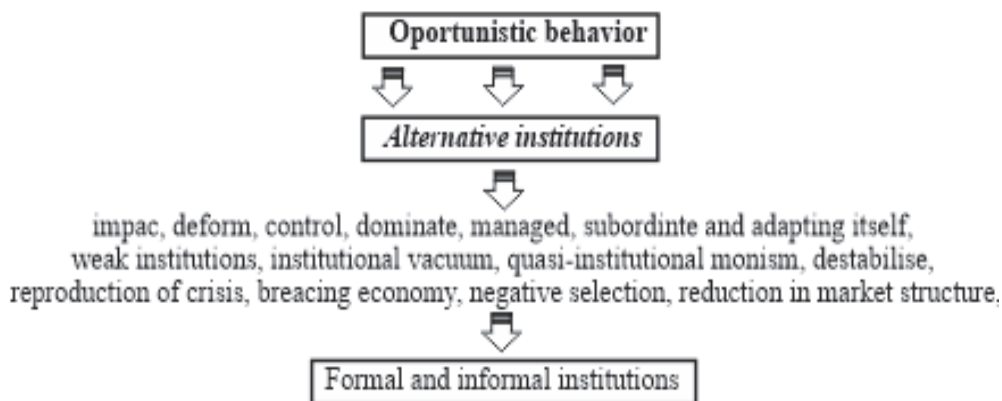


Figure 13. **The role of alternative institutions in the countries of SEE**

Source: author's creations

In underdeveloped SEE countries alternative institutions operate in phases on formal and informal institutions. After its formation, they start to affect them (Phase I), then warp (Phase II), then patrol things, subordinate and adapt (Phase III), and finally begin to dominate (Phase IV) and reproduce the crisis (Phase V) - Figure 13. It is opposite in developed countries: formal institutions are controlling, limiting and eliminating the possible emergence of alternative institutions and opportunistic behavior (Delibasic, 2014; Delibasic and Grgurevic, 2013; Popov and Ersh, 2016) – eg. Figure 14.

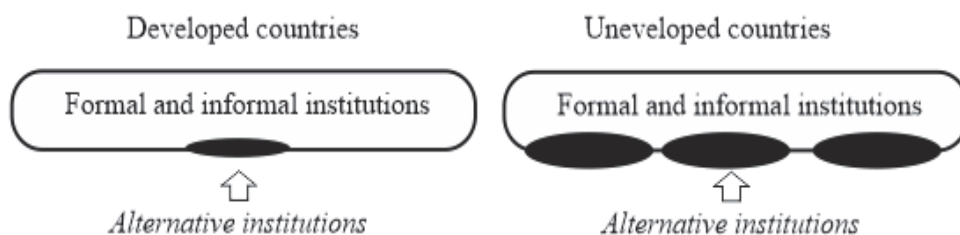


Figure 14: **The relationship between formal and alternatives institutions in developed and undeveloped countries**

Source: author's creations

M. Draskovic, S. Bauk, and M. Delibasic (2016) demonstrated a high level of perception of the negative effects of alternative institutions to the limited institutional rationality, by using multiple linear regression analysis. To this conclusion they have

come through analysis of negative impact on four groups of hindering (scarce) factors in the observed countries (the rule of law, institutions, civil society and opportunistic behavior).

Many authors criticized the “*market fundamentalism*” (term of J. Stiglitz). They are characterized by that it has always been “*political doctrine, serving the certain interests, and has never been supported by the real economic theory nor historical experience.*” M. Mesaric (2012) writes about inadequate type of transition, which has derived from the lack of public interest and responsibility, under the influence of speculative interest, superficial and greed generated ideas. This type of transition is possible only in a situation of misused institutional vacuum, which in our opinion tends to institutional nihilism (understood as almost absolute dominance of informal and alternative institutions over formal and placing the latter at the service of creating political rent).

In the post-socialist countries SEE, throughout the period of transition was present deficit and/or complete absence of neoliberal economic values and elements of corresponding theoretical model. They were substituted by various forms of unsustainable monopoly and alternative institutions. There was a large gap between the formally institutions and opportunistic behavior in practice. After unsuccessful socialist project, economic and quasi-institutional experimentation was applied again. Civil, political and party monopolies were used to establish specific quasi-institutional order, creating new monopolies, combined from nomenclature authority and privileged individuals.

Neoliberal formulas, experiments and improvisations have caused enormous social and economic problems, inequality, discontent, devastating consequences, and crisis. The order of the above recipes is maintained by the same methodology by which it was created: paradoxes, promises, opportunistic behavior, interests of big capital and power ambitions. Using various instruments of financial “gymnastics”, boundless neoliberal deregulation dynamics have exceeded actual limits of economic reality, as well as the moral and institutional requirements (constraints) of rational human behavior.

In their propaganda and practice, neoliberals have ignored the class relations, social differentiation and individuality in a mass scale. They have reduced the institution of state regulation to minimum services to the population (defense, justice and legislative system) and support of the market-based system, especially in the period of crisis and market fiasco (failure). Monistic quasi-market reforms in post-socialist transition period have failed to substitute the huge institutional vacuum. On the contrary, they provided the creation and dissemination of alternative institutions, which represent a basic form of quasi-institutions. Quasi-market reforms have led to expansion of alternative institutions and transformation into a quasi-institutionalization. Institutional pluralism is time imperative and has no alternative.

It is well known that the development cannot be based on leaps. But it also cannot be based on ignorance, immorality, lack of trust, lack of cooperation, social pat-

hology, anti-civilizational and anti-human standards, anti-natural and anti-development antinomies, divestitures, false rhetoric, bluff, deceit, inequality, exploitation, unilateralism, monism, domination and demotivation.

Boundless economic “freedom” for individuals, created by non-market enrichment, are possible only in terms of institutional vacuum and institutional monism. Restrictive and protective power over society can carry out only the state and its regulation. Popper’s paradoxes suggest the need for “mini-state”, but do not prove that there are defined boundaries of such state. Modern realization of the “mini-state” idea, in practice has led to a new form of totalitarianism and economic reductionism. In the most countries SEE, it was a chance for minorities to enrich on monopolistic principles of non-market privilege and monistic institutional reasoning of the quasi-market, which was regulated on the principles of market restrictions. This was a major and intractable paradox of transitional development and cause for reproducing the post-socialist crisis. In practice, quasi-institutional monism (quasi-neoliberalism) denies not only institutional pluralism, but also institutional monism (neoliberalism).

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# TESTING THE LEVEL OF ALTERNATIVE INSTITUTIONS AS A SLOWDOWN FACTOR OF ECONOMIC DEVELOPMENT: THE CASE OF MONTENEGRO

Mimo DRASKOVIC, Sanja BAUK and Veselin DRASKOVIC

*The purpose of the article is to test public's perception of the opportunistic behavior and alternative institutions existence and the degree of their influences on reproduction of the economic crisis. For that purpose, besides the theoretical considerations, the paper comprises quantitative analysis of affecting the inability of economic development, and reproduction of crisis, by the following factors: (a) non-market enrichment and log-rolling structures, (b) parties' monopolies and lobbyism, and (c) systemic corruption. Multiple regression linear approach is applied on a sample of 300 selected respondents in five towns in Montenegro: Podgorica, Niksic, Cetinje, Herceg Novi, and Kotor. On the basis of the conducted statistical examines: standard error of the regression estimate, correlation coefficient, and coefficient of determination are calculated on the basis of previously determined regression coefficients and forecast values of the linear function of free variables (factors: a, b, and c). The regression plots for each of the considered cases, which verify the starting hypothesis, are shown along with the discussion and conclusions. Our results indicate the need to reduce and eliminate effects of the above factors in the society and economy, since they represent concrete manifestations of alternative institutions' negative impacts. The main conclusion of the research is that the authorities in Montenegro should identify all of the channels through which alternative institutions do affect the reduction of social and economic choices. In this sense, it is proposed overcoming the monistic neoliberal policies, along with affirmation of institutional pluralism.*

**I**n the history of society there has always been a development paradigm with appropriate criteria and value systems. One of the most important and strongest dri-

ving power of the modern civilization is a mutual correlation, causality and dependence of the market economy (which basically includes private enterprises), technological progress and institutionally developed and flexible state regulation. Societies that ignore institutional pluralism are based on the anti-development strategies, mainly of the narrow interest type (Kiausiene and Streimikiene, 2013). They are doomed to deepen and reproduce the crisis.

Monistic concept and context of alleged neoliberalism (doctrinal, terminology, institutional, developmental, cognitive, strategic, interest, redistributive, ownership, civilizational, geopolitical and ideological) has its numerous practical quasi-manifestations. In the critical period of the development, Montenegro is undergoing the stage of negotiations on its way to the EU membership. After years of discrepancy between pompous rhetoric on reforms and their disheartening results, there is no serious efforts on the horizon towards overcoming the problem. Montenegro's accession to the EU will primarily depend on the speed and level of overcoming the mentioned challenges, what must be preceded by the political willingness for real institutional changes and the appropriate reforms.

Since the socio-economic crisis is associated with the negative activity of alternative institutions, degree their impact on real economic activity in the Montenegro's has preoccupied the attention of many authors. Some authors have identified, explained and schematically modeled these phenomenon (Delibasic and Grgurevic, 2013; Delibasic, 2016). The analysis of institutional factors is directly associated with the dominance of politics over economy (Acemoglu et al., 2003). Creation and development of alternative institutions is possible only under the conditions of (North, Walis and Weingast, 2012).

Therefore, the main aim of this research should be focused on the analysis of interaction between perception of existence of certain alternative institutional forms in Montenegro and their limiting impact on the economic development ie on the long-term reproduction of the crisis. The existence of strong alternative institutions creates major problems, which steadily increase transaction costs and the total loss for the society (due to the creation of artificial monopoly balances, which are far from the normal market equilibrium). Instead of strengthening of formal and informal institutions, alternative institutions are the ones becoming more powerful, directly affecting the institutionalization of privileges, the preservation of political power, and the expansion of monopolization in all areas. The trend of profitable privatization and nationalization of losses continues.

Our research contributes to concretely demonstrate some theoretical assumptions in terms of the real and negative influence of alternative institutions and equivalent quasi-neoliberal economic policy on the economic development, both in Montenegro and region. This should enrich the wide range of theoretical neo-institutional recommendations regarding the affirmation of institutional pluralism (Williamson, 1995; Stiglitz, 2000; North, 2005; Hodgson, 2006; Rodrik 2007; Mesaric, 2012; Acimovic, 2012; Yerznkyan, 2012; Williamson, 2014). Besides, institutional pluralism,

as a form of limited institutional rationality (Delibasic, 2016, p. 150) in the theory proved to be a civilization criterion of economic development and is expressed exclusively through complementary, pluralistic and simultaneous acting of all social and economic institutions (formal and informal), with parallel and greater neutralizing of alternative institutions.

The level of compliance between institutions and individuals directly affects the motivation of economic subjects, the way of business regulation, and economic development. Alternative institutions are a classic example of conflict of individual behavior and institutional structure. The reasons were social, political and those based on personal interests (Ciegis, Dilius, Mikalauskiene, 2015).

They have enabled adjustment, by forcing and reproducing institutional dis-functionalities (nepotism, violating the legal norms, paternalism, unpunished manipulations, lobbying, rent oriented behavior, etc.). This has been referred to the parallel process of disruption and erosion of the public interest, and strengthening interests and power of the ruling elite (V. Draskovic and M. Draskovic, 2010).

Negative results that produced alternative institutions showed predatory privatization. The mass access to resources, employment and freedoms, legal institutions (formal and informal) and to their pluralistic activity in the Montenegro have been fragmentary and episodic, rather than universal and compulsory. Neoliberal formulas, experiments and improvisations have caused enormous social and economic problems, inequality, discontent, devastating consequences, and crisis (Vveinhart, Andriukaitiene, 2015).

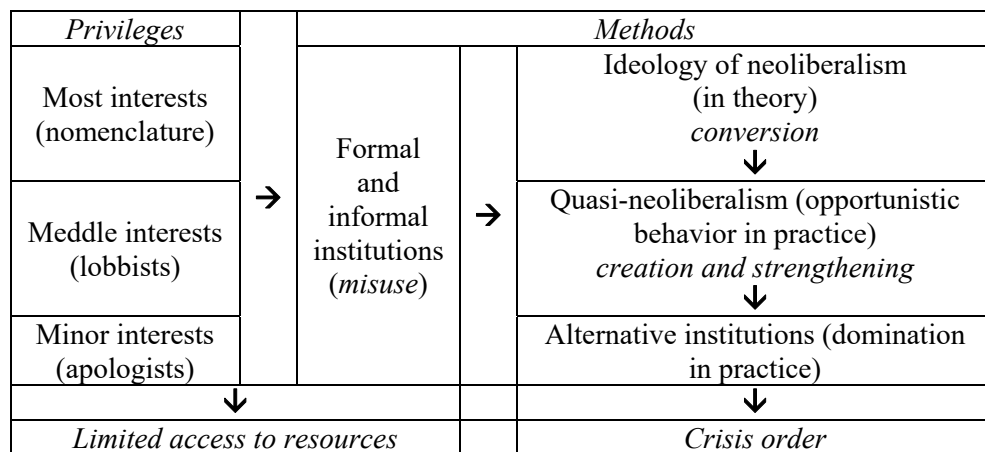


Figure 15. **The main causes of the economic problems in developing countries in transition**

Source: The authors' creation

The order of the above recipes is maintained by the same methodology by which it was created: paradoxes, promises, opportunistic behavior, interests of big capital and power ambitions. In this paper we have started from the conviction that the various levels of stakeholders directly and indirectly, through formal and informal institutions - support the vulgarization of neoliberalism and its transformation into a quasi-neoliberalism (Lakic and Draskovic, 2015), through which are built, strengthened and maintained the alternative institutions (Figure 15).

This paper criticizes all forms of monistic (reductionist) economic regulation, because it is considered that the economic development can not be achieved by orchestrated institutional design, or by replacing one form of monistic regulation (state) with other (market), and particularly not by alternative institutions (shadow institutions). The starting hypothesis is: that the effects of alternative institutions enable the existence of informal and privileged combinations of institutional monism (market's and state's regulation), which are dictated by the new elites (Draskovic and Delibasic, 2014).

For testing our hypothesis, to test our hypothesis, the article is structured as follows: Section 1 - reviews the relevant theoretical approach. Section 2 - presents the facts and paradoxes of modification liberal into neoliberal paradigm. Section 3 - describes the case study conducted in Montenegro. Subsections 3.1 and 3.2 contain the methodological framework and brief description of used software tools. Section 4 discusses the obtained results, while subsection 4.1 shows regression plots which confirmed additionally the coherence between empirical and by the model forecast relationships among the analyzed variables. Section 5 contains the concludes.

## **Theoretical approach**

Deficit of institutions of state regulation and market regulation, along with its abuse has led to the affirmation of opportunistic and quasi-institutional behavior, and consequently to the formation and strengthening of alternative institutions (V. Draskovic and M. Draskovic, 2012, Delibasic and Grgurevic, 2013; Delibasic, 2014; Popov and Ersh, 2016). In such institutionally deficient conditions, economic choice has been reduced, and social and economic crisis have been reproduced, in a long run. Domination of alternative institutions over the formal institutions (Hodgson, 2006) was forced. Neoliberals, in orchestrated manner, and in all occasions criticize state regulation and advocate a minimal state. This is contrary to the basic conclusion of the book of T. Piketty (2014) that the economic disparities will increase in the future, if we do not take decisive action by government intervention.

The same author supports the view of D. Acemoglu and J. Robinson (2012) according to which inequality of treatment of business entities can be eliminated by improving economic and political institutions. Using the political power has led to a

paradoxical submission of the politics and private interests (Marcouiller and Young, 1995). At the same time, neoliberals forget that the very recent words of A. Smith, from two centuries ago, that state should do, what an individual will not. Many foreign (Saad-Filho and Johnston, 2005; Rodrik, 2007; Stiglitz, 2008; Yerznkyan, 2012) and regional authors (Mesaric, 2011; Draskovic, 2010) in scientific articles criticize neoliberal economic policy - neoliberalism, economic inequality, privileged redistribution of national goods, non-market enrichment, the criminalization of society, accelerated government debt crisis and a number of other crisis consequences.

Although they often do not analyze or identify the main causes of these problems, the fact is that, however, they advocate institutional pluralism, on the basis of the model of developed countries. The media deal with numerous deviations of the economic reality and in their own way they take note of the above mentioned appearances. D. North (1981, p. 32) emphasized the importance of the institutional structure, which included institutional pluralism. Many studies have shown the direct and indirect link between institutional pluralism and economic development (Denzau and North 1994, p. 20). However, in underdeveloped SEE countries, neoliberal economic policy is applied, which encourages market-regulation (institutional monism).

Neoliberal monistic modeling of economic reality (in theory) is manifested in practice through rhetoric glorification of the absolute domination of private ownership, entrepreneurial initiatives, and economic freedoms, unlimited markets and the so-called minimal state. This is followed by different forms quasi-neoliberal behavior, which has socio-pathological and opportunistic origins. It is a phenomenological ignorance of actual conditions for realization of economic choice and causes of big problems (economic and social). Alibi-reformers by its silence, by omission, and by commission (dogmatic description and apologetics) were complicit of transition negativity. But it probably acts also as an insider (in terms of small material interest), because it is hard to believe in neutrality of the long-term orchestrated and impassioned support to neoliberalism.

### **Facts and paradoxes of modification liberal into neoliberal paradigm**

One of the basic contradictions of neoliberal economic policy is that it has enabled paradoxical gap between the privileged elite of power and limited institutional power of the state. The second paradox has directly resulted from the first: an elitist urge for the fast acquiring and increasing wealth, dominance and total power, substituting the institutional control. In such circumstances institutional vacuum (created intentionally, for the neoliberal conceptions of institutional redundancy) has reproduced the power of networking and informal groups. The third paradox consists in the fact that neoliberal theorists remain at the level of hypothetical modeling of economic reality. In this way they have apologetically excluded the fact that neoliber-

ralism in the practice of some transitional countries has essentially turned into a quasi-neoliberalism. The fourth paradox consists in individualistic abuse of state regulation institution, which has irresponsibly adopted the neoliberal economic policy, which was in the function of strengthening alternative institutions that have begun to dominate over formal and informal institutions.

Quasi-institutionalization is possible only in politically desirable and strictly controlled institutional and economic conditions, which naturally bring to life exclusivity and contradiction (alternation) of institutional relations, which prevent real institutional change and institutional competition. In such quasi-institutional terms, in which sophisticated imposes and dominates socio-pathological form of domination of alternative institutions (Figure 16) comes to production and reproduction of many anti-institutional privileges of a minority who come from circles of nomenclature authorities and their lobbyists. Furthermore, there is an enormous and non-market enrichment of narrow groups of society based on privilege.

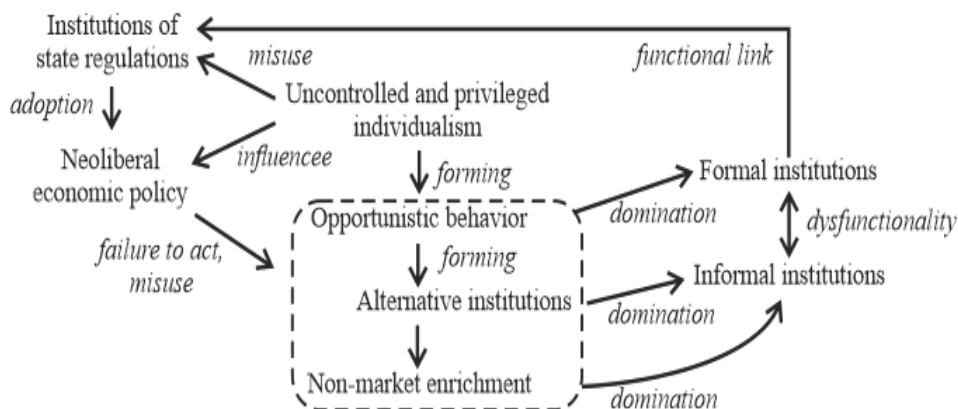


Figure 16. **The substance of neoliberal quasi-institutionalization**

Source: The authors' creation

Many authors (see eg. North, Walis and Weingast, 2012) point out that the non-traditional context of neoliberal economic policies, globally and locally, manifest themselves as immoral, inhumane, brutal, chaotic, crisis and hegemonic system of power, domination, violence, exploitation and greed. All this is a result of neoliberal quasi-monopolization. However, neoliberalism is a new form (model) of liberal thought and practical economic policy. It can not be understood as recovery of lost tradition of liberal political thought, because all political theorists and professional politicians advocate for freedom and democracy, which are the primary values of liberalism. Neoliberal ideology is always about the liberal principles of individual



freedom, but it has formulated entirely different scheme, which adds a radically new dimension to its meaning.

Through alternative institutions which are very personalized, and annuity-oriented, quasi-market, and privileged in the access to the resources, it is achieved a great influence to the interest groups. To the alternative institutions belong all socio-pathological phenomenon, the *shadow* economy, the persistence in applying wrong prescriptions of monistic neoliberal so-called shock therapy, compensating rigor of formal rules with their failure to perform, corruption, violation of the property rights, formation of various stereotypes behavior, influence of informal norms of behavior (by expanding institutional conflict), the impact of connections and lobbying of strong political figures, etc. (Infante and Smirnova, 2016).

In this paper, we have chosen three types of alternative institutions: non-market enrichment and log-rolling structures, parties' monopolies and lobbyism, and systemic corruption, with an aim to analyze their impact on economic development, using an extensive survey. The methodology and the obtained results are presented in the following sections.

### **Montenegro case study**

Since Montenegro is a South-East European country which is in transition for almost thirty years, we considered as important to examine the influence of alternative institutions on enabling economic development and reproducing and magnifying crisis. As a methodological framework for the quantitative analysis – a linear multiple regression model is employed, while 300 selected citizens, that possess certain level of awareness and knowledge about the economic situation in Montenegro, and high level of logical thinking, were interviewed.

Among the respondents were: (i) employees in governmental institutions, (ii) employees in NGOs, (iii) non-employed persons, (iv) students, and (v) pensioners. Each group was formed of 12 respondents from five towns in Montenegro: Podgorica (Town\_1), Niksic (Town\_2), Cetinje (Town\_3), Herceg Novi (Town\_4), and Kotor (Town\_5). They were asked to estimate, on the base of their best knowledge, experience, and/or intuition, the degree of disabling economic development and reproducing crisis in the past period in the country.

Also they were asked to estimate the values of three factors (types of alternative, or shadow institutions) which are presumed as key ones for generating, reproducing and intensifying the economic crisis: (a) *non-market enrichment and log-rolling structures*, (b) *parties' monopolies and lobbyism*, and (c) *systemic corruption*. The respondents used in all cases the scale (1.0; 1.5; 2.0; 2.5; 3.0; 3.5; 4.0; 4.5; 5.0), while 1.0 represents the lowest and 5.0 the greatest impact.

## Linear multiple regression model

A multiple regression model is a more complex approach in comparison to the simple regression model (Balakrishnan et al., 2007). Adding additional independent variables turns a simple regression model into a multiple regression one. In the paper we use linear multiple regression model, even it can be in some cases quadratic, cubic, logarithmic, etc. Simply, it allows creating a model with several independent variables. Here, we have as the dependent variable: *slowing down the economic development and reproduction of crisis* in Montenegro, and three variables which we treated as independent ones: (a), (b), and (c) being specified in the previous section (Section 3).

The dependant variable is the item we are trying to forecast, and the independent variables are the items we think might have casual effects on the dependant variable. The form of the multiple regression equation in this case is:

$$\bar{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 \dots (1)$$

Where,

$\bar{Y}$  - is a forecasted average value of the dependent variable (slowing down the economic development and reproducing crisis);

$b_0$  - Y-axis intercept, based on the current sample; and

$b_1, b_2, b_3$  - slopes of the regression for the  $i$ -th independent variable  $X_i, i = \overline{1,3}$  respectively.

Note that we refer to  $\bar{Y}$  as the forecasted average value since it is, in fact, the average (or expected value) of a probability distribution of possible values of  $Y$  for a given values of  $X_i, i = \overline{1,3}$ . To obtain the value of  $\bar{Y}$ , we use a practical statistical method known as the last-squares procedure (Bertskas et al., 2008). Mathematically we can express the last-squares procedure as follows: find the values of  $b_0, b_1, b_2$ , and  $b_3$  that minimizes the sum of squared errors (SSE), defined as:

$$SSE = \sum_{k=1}^n (Y_k - \bar{Y}_k)^2 = \sum_{k=1}^n (Y_k - (b_0 + b_1X_{1k} + b_2X_{2k} + b_3X_{3k}))^2 \dots (2)$$

Where,

$n$  - is number of respondents (in our case for each of five considered towns it is equal to 60, i.e. 300 in total).

Let us note here that last-square method finds a line that minimizes the sum of all vertical differences from that line to each of the considered data points (Bala-

krishnan et al., 2007, p. 551), in other words, it is about finding the best-fitting straight line in the corresponding set of points. So, we have to determine optimal values for intercept ( $b_0$ ), and slopes ( $b_1, b_2, b_3$ ) in order to achieve as accurate as possible value of  $\bar{Y}$  for given  $X_i, i = \overline{1,3}$  and  $Y, \forall k$ .

Calculations in multiple regressions are very complex and best left to a computer. It can be realized, e.g., in SPSS (Sheridan and Coakes, 2013; Pallant, 2011) or by different Excel tools. In our analysis we used Excel Modules solver embedded to classical Excel.

### Measuring forecast error-accuracy

The forecast error is a measure that indicates how well the model performed against itself in accordance to the historical data (Balakrishnan et al., 2007, p. 531). In our analysis we shall examine the following error measures: mean absolute deviation, i.e. MAD, mean squared error, i.e. MSE, and mean absolute percent error, i.e. MAPE. These values are calculated by the following formulae:

$$MAD = \sum_{k=1}^n |A_k - F_k| / n \dots (3);$$

$$MSE = \sum_{k=1}^n (A_k - F_k)^2 / n \dots (4); \text{ and}$$

$$MAPE = 100 \sum_{k=1}^n [|A_k - F_k| / A_k] / n \dots (5)$$

Where,

$A_t$  - actual value;

$F_t$  - forecast value; and

$n$  – is number of samples, here number of responds (300 in total).

MAD is calculated as the average value of the absolute individual forecast errors. MSE indicates that we prefer to have several smaller deviations rather than even one large deviation. MAPE is the easiest value to be interpreted and it measures the size of the error in percentage terms. Besides these three values, in our analysis are included as well the following statistical measures of the model validity and accuracy (Balakrishnan et al., 2007; Bertskas and Tsitsiklis 2008; Montgomery, 2008): standard error of regression estimate ( $S_{YX}$ ), correlation coefficient ( $r$ ), and

coefficient of determination ( $r^2$ ). The easiest and the fastest ways to calculate these statistical values are by means of the Excel embedded functions:

$S_{YX} = \text{STE}_{YX}(\text{given\_Y's}, \text{given\_X's}) \dots (6);$

$r = \text{CORREL}(\text{array1}, \text{array2}) \dots (7);$  and

$r^2 = \text{RSQ}(\text{given\_Y's}, \text{given\_X's}) \dots (8).$

The standard error of regression estimate is useful in creating confidence intervals around the regression line. The correlation coefficient helps measure the strength of the linear relationship. Although there is no specific rule to decide when two variables can be deemed to be highly correlated, in general, correlation coefficient magnitudes of 0.6 and greater are indicative of a strong relationship. The coefficient of determination tells us how much of the variability in the dependent variable is explained by the independent variable. Within the next section we shall present the results of our statistical analysis for the case of exploring shadow or alternative institutions impacts on economic of Montenegro as a developing country in transitional environment.

## Results and discussion

Below are given all relevant results and errors, i.e. accuracy measures for our model (Table 10). Due to the responds of the interviewed persons of different profiles in five Montenegro towns, the values of the coefficients:  $b_0, b_1, b_2, b_3$  are shown; as well as, error measures: mean absolute deviation (MAD), mean squared error (MSE), and mean absolute percent error (MAPE); and, statistical validity parameters, relevant for the model, as: standard error of regression estimate ( $S_{YX}$ ), correlation coefficient ( $r$ ), and coefficient of determination ( $r^2$ ). What we can notice from Table 10 is that in all cases, except one (Town\_1), mean absolute percentage error, i.e. MAPE is less than 10%.. In the case of survey in Town\_1 this percentage is little bit higher, i.e. 11.45%.

Also, it is clear that there is a strong positive correlation ( $r \approx 0.6$ ) between considered variables in three cases (Town\_2, Town\_3, and Town\_4), while in two considered cases it is not so strong (Town\_1 and Town\_5). It is worth to emphasize that coefficients of determination are rather high in the cases of Town\_2 and Town\_3. More precisely, in the case of Town\_2, 61.4% of total variation in slowing down the economic development and reproduction of crisis is explained by three here considered independent variables: (a) non-market enrichment and log-rolling structures, (b) parties' monopolies and lobbyism, and (c) systemic corruption, while only 39.6% remains unexplained (or explained by other variables, not taken into con-

sideration here). By analogy we can draw conclusions for the surveys being conducted in other towns.

**Table 10. Values obtained by the multiple regression models**

<i>Towns/ Parameters</i>	<i>Town_1</i>	<i>Town_2</i>	<i>Town_3</i>	<i>Town_4</i>	<i>Town_5</i>
$b_0$	0.750	0.805	0.481	1.171	1.764
$b_1$	0.426	0.387	0.403	0.266	0.319
$b_2$	0.197	0.204	0.131	0.062	0.217
$b_3$	0.133	0.171	0.253	0.218	-0.019
MAD	0.365	0.288	0.238	0.292	0.246
MSE	0.232	0.125	0.090	0.130	0.103
MAPE	11.45 %	7.87 %	6.83 %	9.94 %	6.22 %
$S_{YX}$	0.499	0.366	0.311	0.373	0.323
$r$	0.533	0.784	0.915	0.599	0.495
$r^2$	0.284	0.614	0.837	0.359	0.245

The F-test evaluates the significance of each developed multiple regression model on the basis of previously conducted surveys. The null and alternate hypotheses for this test are as follows:

$$H_0 : b_1 = b_2 = b_3 = 0 \dots (9); \text{ and}$$

$$H_1 : \text{at least one of } b_1, b_2, b_3 \neq 0 \dots (10)$$

If  $H_0$  is true, than the overall regression model is not significant, and if  $H_1$  is true at least one variable in the model is significant. The hypothesis  $H_1$  is valid for our experiments. It is important to note here, that the results of F-test should not be interpreted as an indication that all variables  $X_i, i = \overline{1,3}$  are significant. However, we can conclude that the overall model is significant.

According to the values ( $b_1, b_2, b_3$ ) in Table 1, we can make some conclusion about the significance of the independent variables (i.e., non-market enrichment and log-rolling structures, parties' monopolies and lobbyism, and systemic corruption) in the model, in terms of their influence to the dependent variable (e.g., slowing down the economic development and reproduction of crisis).

For instance, in the case of Town\_1, the first independent variable has the greatest influence to the dependent variable, while the second one has considerably smaller influence, and the third one has the lowest one. By the same principle we can

make the conclusions for the models formed for another towns covered by the surveys.

Namely, in the cases of Town\_3 and Town\_5 the relation between the considered coefficients, i.e., corresponding independent variables are the same as in the case of Town\_1. On the other side, in the cases of Town\_2 and Town\_4 the importance of the third independent variable is greater than the second one, while the first considered one is still in both cases on the first place and has the greatest influence on slowing down economic development.

### **Regression plots**

An alternate method for assessing the validity and accuracy of the causal model is to draw line plots of the actual values for dependant variable given by the respondents and forecasted values obtained by multiple regression models. The line plots for the surveys conducted in Towns\_1-5 are shown in Figure. 17-21.

The line plots in Figure 17 indicate that causal model which we developed does well replicate the respondents' assessments of the dependent variable - slowing down the economic development and reproduction of crisis. However the presence of a few sizable forecast errors (e.g., in responds no. 19 and 48) become obvious by the plots, as well. The corresponding squared error values in these cases are: 2.787, and 1.384. The average forecast value of the dependant variable is approximately between 3-4 at the predefined scale of the inability of economic development and reproducing the crisis.

Like in the previous case the causal model corresponds quite well to the respondents' assessments in the case the poll realized in Town\_2 (Figure 18). But, some sizable errors can be noticed (e.g., in responds no. 49 and 50). The related squared errors are: 0.572, and 0.795. Also few smaller errors can be noticed for responds no. 13, 17, 31, 32, and 58, while the belonging squared errors are respectively: 0.522, 0.273, 0.245, 0.261, and 0.263. The approximately average values of the forecast dependent variable are between 3.5 and 4.5. It means that the level of disabling economic development and generating crisis is quite high and worrying.

By employing the same logic as in the previous cases, while concerning the poll conducted in Town\_3, we can notice some error in the following responds in Figure 19: 1, 14, 28, 38, and 41, with the corresponding squared errors: 0.342, 0.307, 0.342, 0.306, and 0.432.

They cause variations in the assumed measure of the dependent variable in the extended range, so that the expected values are between 2.5 and 4.5. It is obvious that the upper boundary level of the analyzed dependent variable is high, similarly to the previous cases.

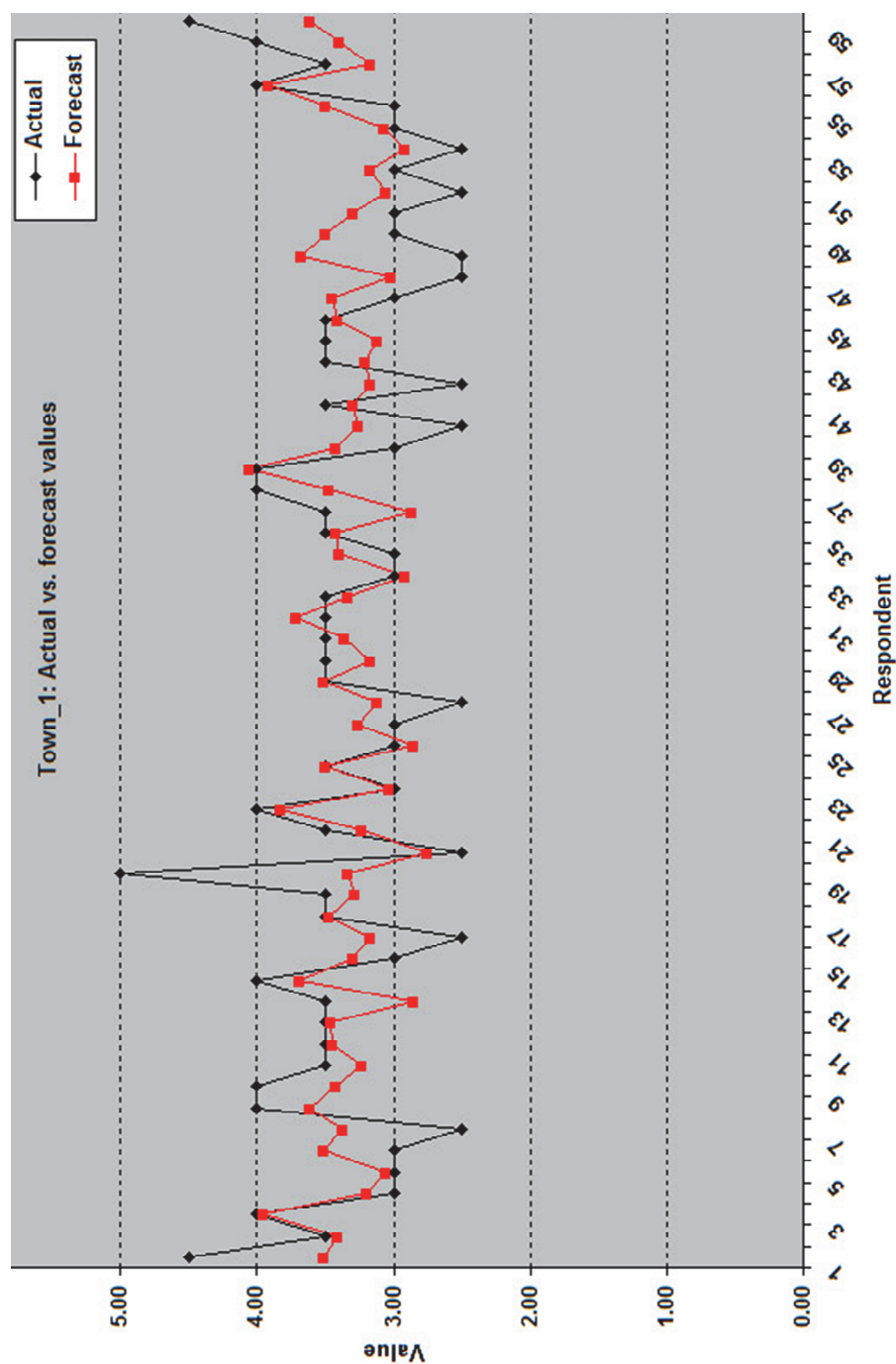


Figure 17. Plot of causal model for Town\_1

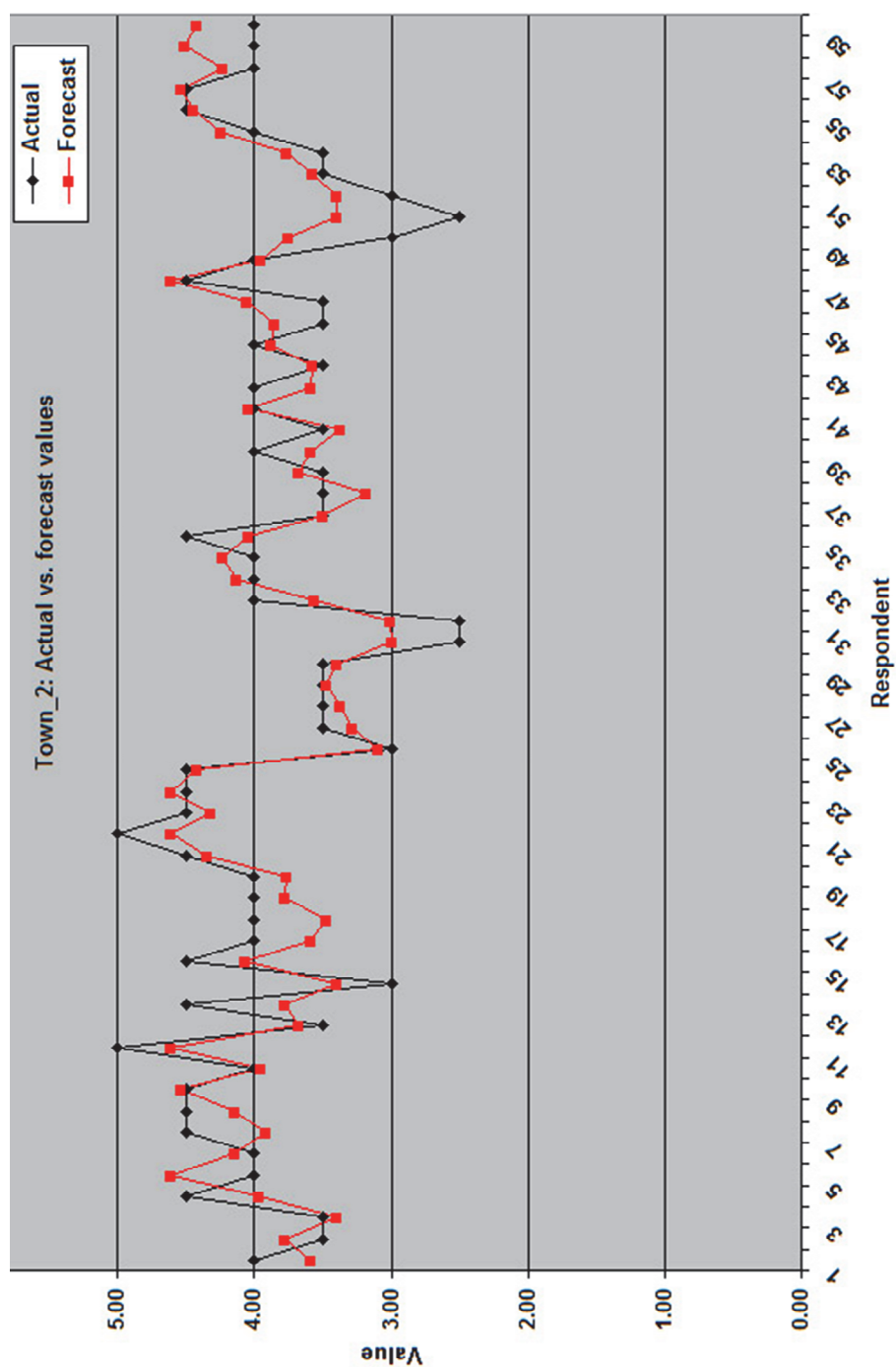


Figure 18. Plot of causal model for Town\_2



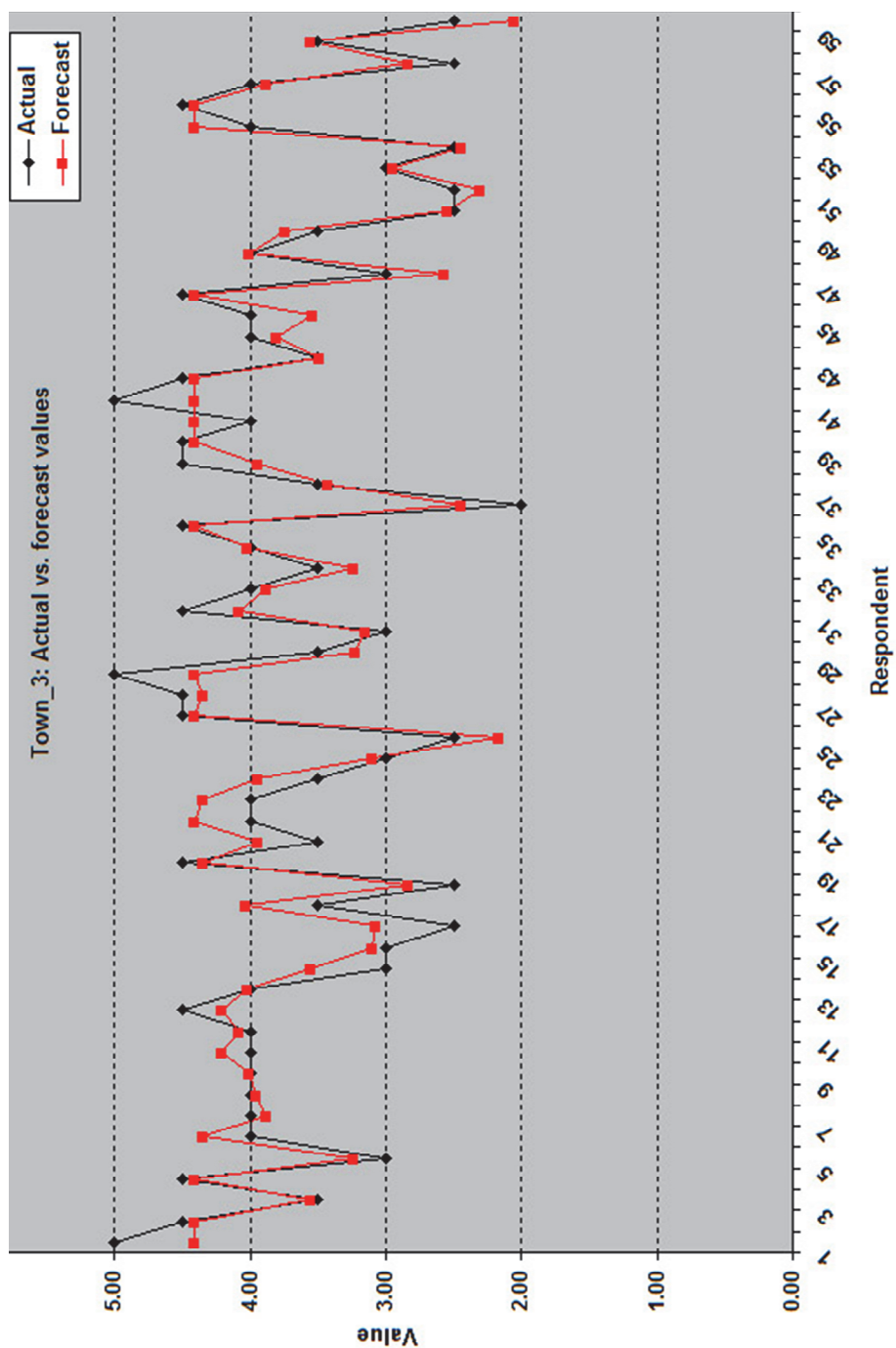


Figure 19. Plot of causal model for Town\_3

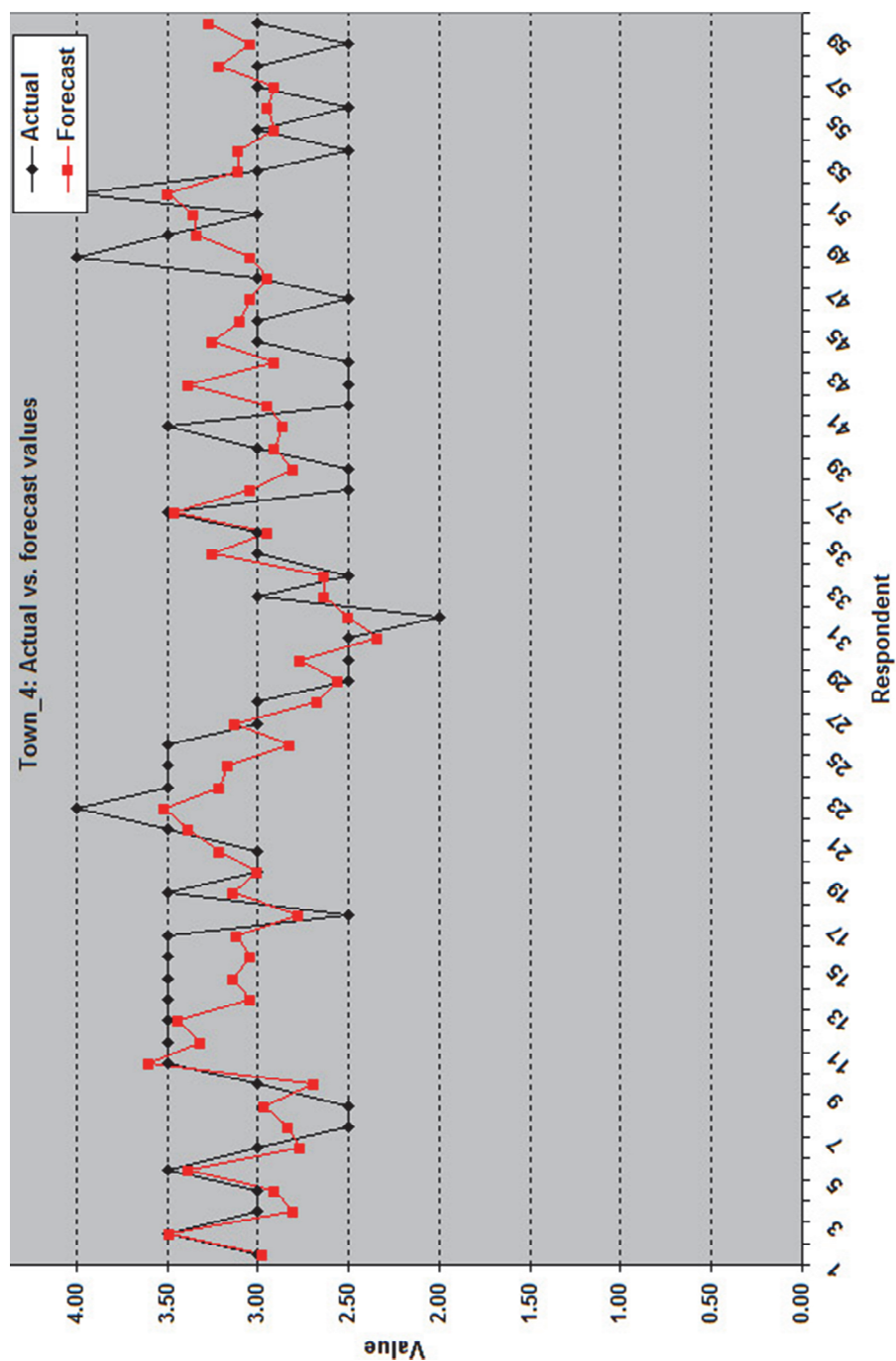


Figure 20. Plot of causal model for Town\_4

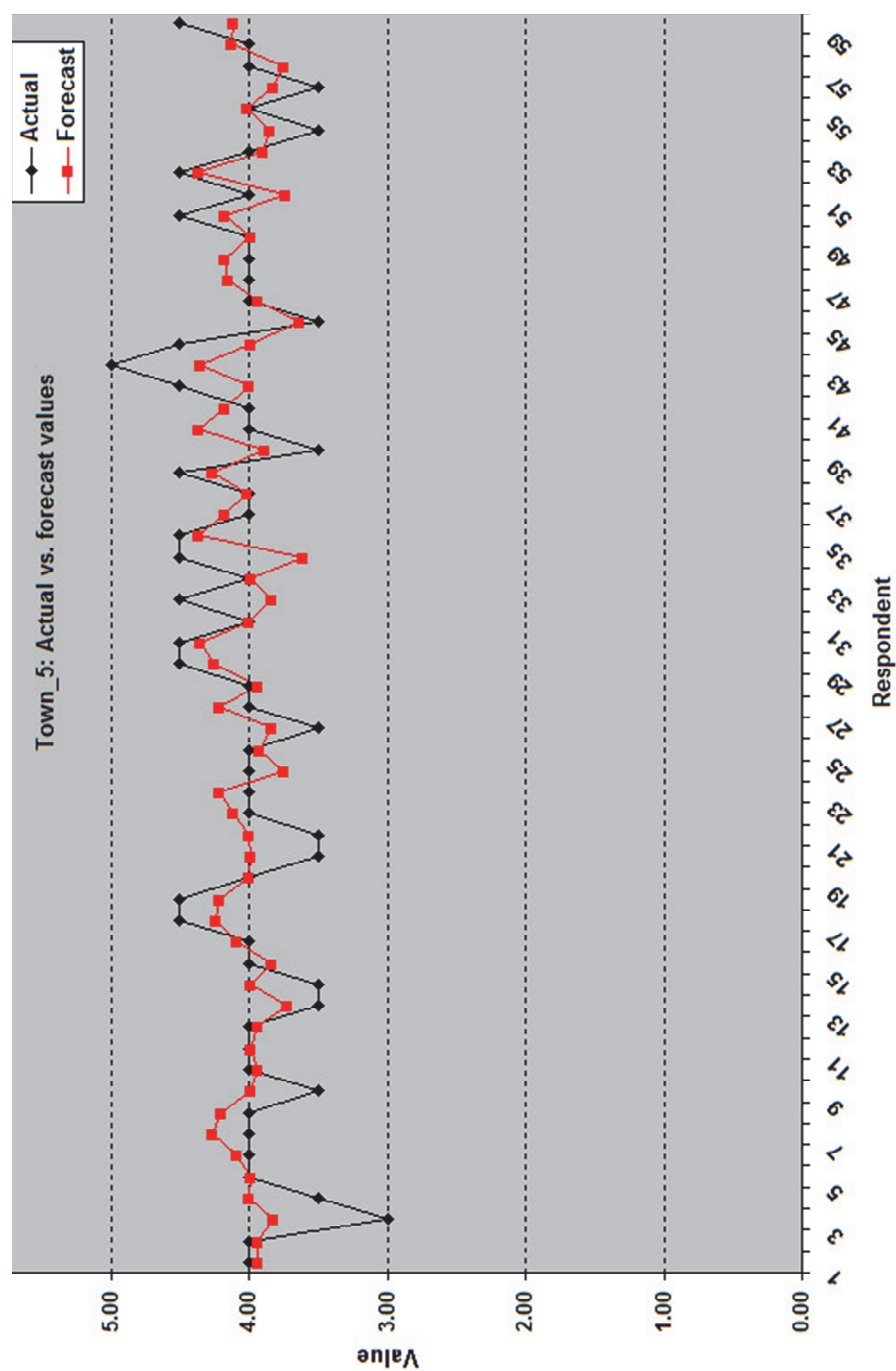


Figure 21. Plot of causal multiple model for Town\_5

In Fig. 20, which represents the results of the poll conducted in Town\_4 analysis, we can notice the sizable error in the next responds: 25, 42, and 48 with the corresponding squared errors: 0.454, 0.773, and 0.914. In the case that we are not satisfied with the assessment of some respondents, we can exclude them and include other ones, change the independent variable(s), or add new one(s). In the case of Town\_4 the level of the forecasted value of the dependent variable is between 2.5 and 3.5.

In Figure 21, which demonstrates the model outcomes for the poll realized in Town\_5, one can notice the sizable errors in the next responds: 3, 32, 34, and 43 with the squared errors: 0.676, 0.447, 0.784, and 0.425, respectively. Towards improving model accuracy, it is in any case possible to replace some responds with new, repeated ones, or to include other, or even more independent variables, what might be the subject of our further investigations in the field. The approximately average value is as in the previous cases high and it is between 3.5 and 4.5.

This speaks about the high negative influence of alternative or shadow institutions to the economy development of Montenegro and preventing the regenerative crisis.

**Table 11. Forecasted values of the dependent variable, i.e., disabling economic development and crisis reproduction in Montenegro (on the scale 1.0-5.0)**

Town	1	2	3	4	5
Forecasted values	3.0-4.0	3.5-4.5	2.5-4.5	2.5-3.5	3.5-4.5

In aim to summaries the results of the statistical analysis based on the surveys conducted in five Montenegrin towns, in Table 11 are given the approximate average forecast values of the dependent variable: slowing down the economic development and reproduction of crisis in the country, due to the considered independent ones: non-market enrichment and log-rolling structures, parties' monopolies and lobbyism, and systemic corruption. It is obvious that the impacts of alternative institutions (representing like independent variables in our model) in Montenegro to the economic development is undoubtedly high and consequently rather demanding in terms of reduction and/or elimination in the near future.

The research results verified the initial hypothesis. For the first time, on the basis of the public opinion polls, the perception of the existence of key elements of alternative institutions in Montenegro has been demonstrated. The scientific contribution of the paper is reflected in the application of well-known and -structured quantitative multiple linear regression method in analyzing, in a quite novel manner, the public perception of existence and impacts of alternative institutions in Montenegro.

The paper provides specific guidelines for the application of multi-variable linear regression model for the research of institutional structures and deviations in the present transitional socio-economic environment. The results imply an urgent need for investing great social efforts towards permanent suspension of proven deviant actions caused by the alternative institutions. Maximizing profits at any cost, regardless of its origin (mainly enrichment through transferring the state property into private) was and still is the most important value criteria of neoliberal economic formulas in some countries in transition.

This has not brought economic prosperity to none in the world, except for the rare and privileged individuals. It is a proven and visible result of quasi-neoliberal absolutism of market freedom and exclusivity of its supporters, who were often formal or ideological „reformers“ in the transitional countries of South-East Europe. These countries today are drowning in social, economic and institutional problems, crisis, debt, poverty, inequality and rich socio-pathological milieu. Paradoxically, the transitional countries of Southeast Europe has seen the abuse of state regulation of neoliberal economic policies and enforcement of privileged individualism, which has led to the strengthening of alternative institutions, making them dominant in relation to the formal and informal institutions.

On the basis of in the paper performed quantitative analysis; it is shown that there is a strong positive correlation between the analyzed types of alternative institutions and hindering economic development in Montenegro. It is also shown that the greatest impact on the reproduction of the crisis has non-market enrichment and log-rolling structures, then parties' monopolies and lobbyism, and then systemic corruption.

The forecast impacts are rather high in all examined cases and the highest upper value of the negative influences is between 3.5 and 4.5 (at the scale 1-5) due to perception of selected citizens of Montenegro from five different towns and from five different social categories. It is important to emphasize that statistical significance of the proposed model and its forecast values is analytically proved. Regardless of the analyzed cases, in larger context, it can be concluded that small, medium and large stakeholders supported the anti-development and anti-institutional reforms.

Their monistic, exclusive, normative, subjectivist and approach based on their own interests, which represents the interests of narrow and privileged social groups. The main mechanism for realizing these interests are alternative institutions. They conceptually generate complex and contradiction environment, which has its own doctrine, terminology, institutional, developmental, cognitive, strategic, interesting, redistributive, ownership, civilization, geopolitical and ideological meaning and numerous practical quasi-events.

They contain many paradoxes, contradictions, scams and myths. On the other side, in the literature, as well as in the practice of developed countries has been proven that the institutional rationality in the economy is expressed through complemen-

tary, pluralistic and simultaneous operation of all social and economic institutions, in parallel with the greatest possible elimination of alternative institutions.

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# PUBLIC SECTOR MANAGEMENT AS A DEVELOPMENT PROBLEM IN SEE COUNTRIES

Mimo DRASKOVIC, Milica DELIBASIC and Veselin DRASKOVIC

*In the period of nearly three decades of post-socialist transition in the countries of Southeastern Europe (SEE), there were numerous synergistic, destructive and anti-developmental hindering institutional factors that directly caused the creation of social and economic insecurity. Many developmental problems, as well as social, economic and institutional deformations, have generated a lasting and deep crisis. This paper analyzes the basic deformations of public sector management, which has emerged as a driving force for all development problems in the SEE countries. It starts with two assumptions: first, weak and slow institutional changes were deliberately programmed by the nomenclature of government, in order to eliminate institutional competition and affirmation of the quasi-institutional monism of neoliberal type, which have enabled the substitutive development of the so-called alternative institutions; and second, highly interest-oriented motives of the government nomenclature have been the main cause of ignoring rational recommendations by representatives of non-institutional economic theories.*

**P**ublic sector (conditionally: public governance) in a broader economic sense is the institution of the state regulation of the economy. In this sense, the interpretation of J. Sinkienė et al. (Sinkienė, J. et al. (2017) can be applied to the factors of economic development, whereas the common field of culture should be supplemented with institutional structures (conditions) - Figure 22. In the narrower economic sense, the state regulation of the economy implies four instruments of macroeconomic policy: fiscal, monetary, foreign trade, and anti-inflation policies. It is considered (Acemoglu et al., 2003; Draskovic, Popov and Peleskis, 2017) that there are three basic economic institutions: public governance, market regulation, and ownership regulation. State regulation is a set of laws and regulations, which define the rights and obligations of permissible economic behavior, as well as

sanctions in the event of its violation. Certainly, within ownership regulation, public sector has significant and managerial competencies, especially in the area of protection and specification of property rights (North, 1987; North, 1994; Demsetz, 1967).

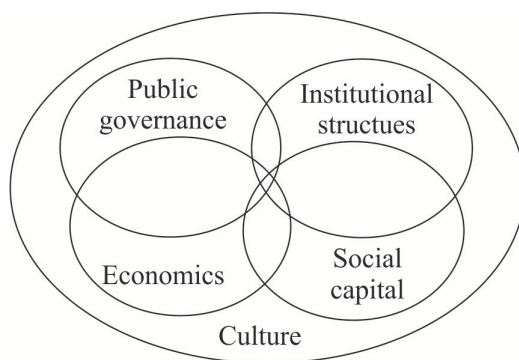


Figure 22. **Subsystems of economic development**

The history of economic thought has determined the conflict between representatives of state and market regulation. Theoretically, this was reflected through the conflict between two economic myths: the plan and the market, a determined and entrepreneurial behavior, visible conscious control, and “invisible” self-regulation. Practice has convincingly relativized the perceptions of the eternity and universality of two formerly opposed principles (and myths): the state-planned dictation (economic coercion - vertical), and the market choice and self-regulation (economic competition - horizontal). It has affirmed their parallel existence in various flexible combinations.

Regarding our topic, an important fact is that all post-socialist SEE countries have faced the collapse of socialist public sector management, and the creation of a hybrid and non-functional institutional system, created by neoliberal recipes. This has enabled the irrational reproduction of the destruction of public goods and their non-market (privileged) conversion to private property (Young, 2003). There has been a major dysfunctionality of public sector management (or simpler: *government failure*), and the inability to effectively manage social and economic development goals. This ultimately led to a long-term and powerful economic crisis, which marked almost 30-year period of the so-called transition or “*transformational recession*” (Kornai, 1994). This way, the public sector management has emerged and manifested as the main development problem in the SEE countries (Delibasic, 2016).

## Theoretical approach

There are several non-institutional theories that are relevant for the explanation of the subject in question. These are: Economic theory of public choice (ETPC), Economic theory of politics (ETP), Economic theory of property rights (ETPR). The above theories are cited here as a positive example of valid theoretical advisory. Unfortunately, the government nomenclatures of the SEE countries have ignored these recommendations during their transition period.

ETPC explains the political mechanism and its influences on the formation of macroeconomic solutions. The public choice shows the imperfection of the political process (feedback of business and policy, the private interests of politicians and politics as a specific area of exchange). Adopting a constitution as a rule of all rules contributes to the development of democracy and the reduction of the exchange possibilities of politics and its actors (politicians and voters). ETP studies a model of political behavior where the voters are the maximizers of interest, and political parties are the maximizers of the vote number. It is also assumed that politicians are driven by personal interests when running for official functions, and formulating a policy that best suits the realization of one's goals to the greatest level possible. ETPC has accepted the above considerations.

In the most general sense, ETPC studies the political mechanism (aspect) of making macroeconomic solutions. ETPC representatives assume that people act in the political sphere following their own personal interests (which are an indicator of a direct link between business and politics), and demystifying the perception of the state as a protector of exclusively social interests. They study ways and methods through which politicians use *government institutions* to realize their private interests by supporting, first and foremost, those programs that contribute to the growth of their personal popularity, prestige and chances for achieving victory in the next elections, thus extending the principle of economic individualism to the state activity. Their original idea is that, in addition to economic, there are *political markets*, where individual human interests are also expressed, and the basic difference between those markets are *conditions* in which those interests are *expressed*.

J. Buchanan, a founder of the public choice theory, has based his major works on the above mentioned idea, for which he received the Nobel Prize in 1986. According to him (Buchanan, 1986), "*politics is a structure of complex exchange among individuals, a structure within which individuals seek to collectively collect their own privately defined goals that cannot be efficiently secured through simple market exchanges.*" The conditions of production, exchange, etc. (prices regulation, investment decisions, scope of state purchases, changes in foreign trade conditions, etc.) are often crucial (specific interest) for certain groups of people. Therefore, these groups try to maintain a permanent relationship with government representatives (through direct contacts, letters, telegrams, fax, media, demonstrations...). All these methods of influencing government representatives are aimed at making favorable political decisions for a particular group of people, and it is called *lobbyism*.

The concentrated interests of the minority, which result in their rent-oriented behavior (Buchanan, Robert and Tullock, Eds., 1980), often overcome the fragmented interests of the majority. Therefore, the relative impact of the minority group with special interests is much greater than their participation in the votes. In everyday political activity, people's representatives (delegates, deputies) seek to increase their popularity through mutual support or mutual assistance in voting (the so-called "vote trading"), which is literally called *logrolling*. In addition to lobbying and logrolling, there are also various *imperfections in the political process* (e.g. the impact of mass media, the absence of voters or rational ignoring, the paradox of voting, which violates the principle of transitivity of voter preferences, so the voting results are not in line with the rule of simple majority and interests of the majority, making decisions independently of their distribution effects, etc.). All these imperfections of the political process indicate the objective existence of numerous possibilities that the results of voting are the subject to various manipulations.

In the critique of state regulation, the representatives of the public choice theory pay special attention to the activities of the government between the elections. Those activities are subordinate to certain regularities, called political-economic cycles (Nordhaus, 1975) and the cases in which the government is unable to provide an efficient allocation and the use of social resources (the so-called non-market failure or government failure). Therefore, it is necessary to constantly control the government's activities and to adjust them in accordance with the socio-economic and political conjuncture. The government should apply economic methods in a manner that does not interfere with market laws. To mitigate possible negative effects, the government should apply immediate measures and neutralize them (Popov, 2012).

ETPR deals with the analysis of property right fragmentation for partial powers. Its basic task is to analyze the interaction of economic and legal systems, which are always realized in *the behavior of economic entities*. Its representatives view the property right as a set of partial powers, the property as a complex set of relationships, and the property relations as an active system of exclusivity in accessing material and immaterial resources in the society. Their basic recommendation is that no one should be privileged in accessing the resources. Hence, the possible non-market privileges (which are often present in the SEE countries) are the result of manipulation and social pathology. In addition, they believe that the state is the most important "agency" for specifying and protecting property rights.

### **Practice of the SEE countries**

Practice has shown that civil society as an institution and instrument for protecting people from (bad) authorities *does not function* universally (Delibasic, 2015). Many authors are unanimous in their assessment that institutions are a universal instrument and a condition for social and economic development (North, 1987;

Denzau and North, 1994; Williamson, 1995; Stiglitz, 2000; Campbell, 2004; North, 2005; Hodgson, 2006; Rodrik, 2007; Acemoglu and Robinson, 2012; Yernzyan, 2012; Popov and Ersh, 2016). However, they have been *negated* by various national, corporate and informal group structures, which by their wealth, privileges and power are represented by the so-called superior "elites", who exploit and limit individuals in mass proportions.

In the SEE countries, the socialist utopia and old collectivist dogmas have been replaced by a new utopia (neoliberalism) and a new dogma (individualism). Slogans, promises, dominance of politics over the economy, reproduction of the crisis, reformist apologetics, and palliative nature of reform measures have been taken from the old days (Popov, 2012). Dictation of the state has been replaced by dictation of the so-called "new entrepreneurs" (newcomers). Controversially, no one remembered to adopt and apply a strict institutional order. Formal and informal institutions (institutional control, institutional conciliation, and institutional pluralism) have been significantly substituted by alternative institutions (in shadows), which are characterized by criminal origin (Marcouiller and Young, 1995; Yernzyan, Delibashich and Grgurevich, 2014).

Propagated individualism has been reduced to the privileges of rare individuals, as a basis for the establishment of quasi-institutional monism (quasi-neoliberal type). The principle of pluralism as the initial and basic motive of transition reforms has been negated. The masses of private property, entrepreneurship, economic freedoms, efficient business, and a better life have been promised to the people. Instead, there was a collapse of economy, deindustrialization (Beg, Basarac Sertic and Druzic, 2017), poverty, unemployment, high indebtedness, inequality, difficult survival conditions, and degradation of value criteria.

Neoliberalism in the SEE countries has proved to be an anti-development doctrine, philosophy, and ideology. Its theory and practice (economic policy) have produced dramatic consequences in the SEE countries (Draskovic, Popov and Peleskis, 2017, p. 126). Libertarianism has distorted the idea of Immanuel Kant that "*Rational human beings should be treated as an end in themselves and not as a means to something else.*" Such negative development conditions have been enabled through the circumvention of the rule of law. The economic behavior in practice was mostly opportunistic, far from regular norms and rules. It was mostly controlled by subjective regulators (so-called alternative institutions). The consequences of many institutional and other hindering factors in the SEE countries are reflected through the long-term reproduction of the economic and social crisis, the lack of economic growth, the decline in living standard of the population, the rise in social tensions, and the general dissatisfaction of the people. According to D. Landes (1998, p. 516), many authors seek the causes of negative flows in the culture as a general pattern of human behavior (Table 12).

**Table 12. Causes, modes, motives, and consequences of opportunistic behavior in the countries of SEE**

<i>Causes</i>	<i>Modes</i>	<i>Motives</i>	<i>Consequences</i>
<p>culture, totalitarian traditions, underdeveloped institutions and institutional irrationality, accepted ideology of neoliberalism, opportunistic behavior</p>	<p>deformation of politics and democracy</p> <p>↓</p> <p>retorics i apologetics</p> <p>↓</p> <p>totalitaran party control</p> <p>↓</p> <p>privileges of rare individuals</p> <p>↓</p> <p>abuse of fomal public sector institutions</p> <p>↓</p> <p>dogmatism and negative selection</p> <p>↓</p> <p>domination of “rapacious state” over “development state”</p>	<p>individual interests of privileged social layers: most interests (nomenclature), meddle interests (lobbyists) and minor interests (neoliberal apologists)</p>	<p>reduction of economic choice, economic disability, mass poverty and disparity, increase in social pathology, deficit of the rule of law, decline in motivation, high degree of monopolization, increase in transaction costs, high level of all forms of corruption, general social and economic crisis</p>

Source: Evans,1989; Kornai, 2006; Mesaric 2011; Draskovic, Bauk and Delibasic, 2016; Draskovic, Jovovic, Draskovic and Jovovic, 2017.

## **Institutional basics of public sector management**

In the modern global economic and financial crisis (credit, fund, and debt), the main rescue role for the largest banks and other market entities had the state interventionism management. When neoliberal recipes failed - monetary and fiscal measures of the public sector are activated. Regulation was urgently replaced by deregulation. Market self-regulation turned out to be wrong in many areas, such as risk ratings, low interest rates, uncontrolled financial virtuality, and monistic institutionalism. The global crisis has shown that frequent and mutable financial crisis is a reality, and will always require increased state regulation.

Understanding the nature of market fiasco, public goods, and redistributive processes, has enabled analogous consideration and explanation of the role of the public sector in the market processes. Economic analysis of the state regulation institution and various political processes has changed the picture of their actual functioning. It has shown that the public sector is not an ideal mechanism of regulation (institutions) because, among other things, it is not capable of transforming resources into social goods in a way that meets the demands of consumers of those goods.

In fact, the political decisions directly and indirectly affect the redistribution and allocation of resources. The allocation and redistribution of public sector resources is not completely done on the market, but in the political process (i.e. in the field of state authority). Different positions and roles of citizens (who are consumers of public goods) in the political institutional system, determine the methods and possibilities of their influence on political decision-making, which depends on the realization of their interests. Consumers of public goods exhibit and protect their interests and preferences in the voting process. However, the influence of the majority on political decision-making depends on many factors, as following: the preference of that majority, the degree of democracy, the specificity of the political structure, the power of certain social groups, their respective influence on politics, and the voting procedure itself (which is not neutral).

Within the non-institutional economic theories, D. North (1981, p. 32) has tried to synthesize a contractual and exploitative approach to the state by forming the so-called State Interest Model, according to which the state is perceived:

- as an agency that sells defense and judiciary services in exchange for taxes,
- has the characteristics of a discriminating monopoly, because it separates the population into various groups of taxpayers and for each it determines property rights in a way that maximizes penalties, and
- restricts the behavior of the manager in the competitive conditions. The same author believes that the dominant institutional objective of the public sector is to build such a property rights structure for maximizing income. In order to achieve this, the public sector should rationally produce such a set of social (in terms of use) and half-social goods and services, which would minimize its cost of specifying and protecting property rights.

The conceptual skeleton of the institutional economy of the public sector, according to J. Hirshleifer (1982, pp. 2-4) consist of: *Smith's theorem* (voluntary exchange increases the welfare of the participants in the transaction), *Coase's theorem* (all possibilities for mutually beneficial exchange are exhausted completely by the interested parties, provided that the transaction costs are equal to zero, and the property rights are precisely defined), and *Posner's theorem* (in the case of positive transaction costs, when obstacles reduce the efficiency of exchange, while different variants of the allocation of property rights show to be unequally valuable viewed from the point of the society interests). Elaboration of the institutional efficiency of the public sector is analyzed on two levels, in accordance with the opinion that institutional efficiency should serve as a focal point for addressing two basic issues: to whom is assigned the right, and what type of legal protection to choose? A choice of the method of legal protection of property rights is carried out according to the economic efficiency criterion, whereby (Calabresi, and Melamed, 1972, pp. 1092-1096) there are several forms of the public sector protection.

A brief explanation of a theoretical explanation of the institutional basis of public sector management and the method of its functioning is aimed to point to the deliberate intention of the power holders in the SEE countries to redistribute ownership rights in a voluntary manner, in accordance with their own interests. There was already a drastic erosion of state property and its non-market transformation into private property. The victims of this transitional experiment were economic stakeholders and the whole nation. This was possible only in the conditions of the target and instrumental parameters deficit of development (*The Global Competitiveness Report 2008-2009*, pp. 3-7). Accordingly, in the post-socialist transition period was missing an effective institutional control of the public sector, which became an instrument of certain predetermined (privileged) beneficiaries, having a patron-redistributive role, hidden under the cover of neoliberal anti-development strategy.

Analysis of public sector management on the example of the SEE countries transition unambiguously shows the need for a corrective role of state regulation. It represents a compulsory institutional factor, which is complementary with the market regulation mechanism, making the so-called institutional pluralism, which is a characteristic of all developed economies.

The weaknesses of public sector management in the SEE countries have enabled the illegitimate benefits for privileged individuals and groups at the expense of peoples and public goods. The causes of these disadvantages can be sought in the opportunistic behavior of the nomenclature of government, which used institutional deficit, asymmetric information, imperfections of the political process, poor possibilities of bureaucratic institutional control, and other specific conditions in which the transition took place.



In all of this, alternative institutions have played a key negative role, with the blessing of international institutional factors, which had their specific geo-economics and geopolitical interests in Southeast Europe.

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# LEVELS AND FACTORS OF TRANSITIONAL CRISIS IN BOSNIA AND HERZEGOVINA, MONTENEGRO, AND SERBIA

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and Nebojsa JOVOVIC**

*This paper analyzes and explores the perception of the relevant subjects on impact degree of the five negative factors: a) path dependence - inherited crisis factors in socialism, b) globalization of geopolitics and geo-economics, c) the responsibilities of governing structures, d) deficit of realistic and pluralistic institutional changes, and e) neoliberal economic policies at the level of the transition crisis in Bosnia and Herzegovina, Serbia, and Montenegro. The aim is to determine the perceptions of respondents about the individual and the overall impact of selected factors on the transitional crisis. It starts from the hypothesis that in the transitional period all these countries had an increased level of socio-economic turmoil with dominating negative impact of the above mentioned factors. The conclusion is that overcoming the crisis requires consistent implementation of many social changes and economic reforms, which will induce the reduction and/or neutralization of all explored negative factors of influence, regardless of the expressed perception of their importance. The starting hypothesis has been fully proven using the multi linear regression analysis and a multiple hierarchical regression analysis.*

**B**osnia and Herzegovina, Serbia, and Montenegro are on a bumpy road to joining the European Union. For them, it has been the most important political and economic long-term goal. However, that road had and still has numerous obstacles, which are manifested as negative factors of influence on the social and economic realities. They generate and determine the low level of social and economic development. In fact, despite some positive processes and advances (in business, tourism, liberalization, civil society, civil and political rights, democracy, freedom of the media, the development of a knowledge society, environment for investments, etc.), the social, political and economic crisis have been reproducing and intensifying for the last 25 years. It is manifested through a number of indicators, including:

- *Social*: unsuccessful and palliative reforms, weak rule of law, poor governance, absence of formal and informal institutions, strong alternative institutions, criminalization of society, poverty, large social stratification, high administrative barriers, slow progress towards the European Union, gender inequality, systemic corruption, etc..
- *Political*: dominance of politics over the economy, the fight for the preservation of government, street protests, strikes, incidents in the assembly, political corruption, political privileges, the conviction of high political officials for criminal acts, charges of election fraud and dictatorship, turbulent political events, etc.
- *Economic*: underdevelopment (Montenegro has 41%, Serbia has 35%, Bosnia and Herzegovina has 29% of the EU-28 development), high unemployment (27% in BiH, 16% in Montenegro, 23% in Serbia), high public debt (70% of GDP - about €3 billion) with a tendency of rapid increase, high level of gray economy, inadequate economic policy (neoliberal), heavy dependence on foreign direct investment and its tendency to fall, collapsed economic infrastructure, weak competitiveness, etc (CBCG, 2014; Vlada Crne Gore, 2014).

It is difficult to empirically determine the real level (degree) of those indicators. Therefore, but also because of the heterogeneity of these indicators, it is impossible to objectively determine the real and the overall level of crisis. Due to partial evaluations, we have decided to present the survey of 1500 respondents (500 respondents per country). They spoke about their perception of the socio-economic crisis level as a dependent variable, and the five key factors of influence, that we selected as independent variables:

- path dependence - factors inherited from the crisis of socialism,
- globalization, geopolitical and geo-economic impacts,
- the responsibility of governing structures,
- deficit of realistic and pluralistic institutional changes, and
- the neoliberal economic policy.

Understandably, all these factors have acted synergistically, although, they had various degrees of influence on the level of crisis, both individually, and together in all three countries that have been the subject of the research. In addition, the crisis has been constantly intensifying and increasing throughout the whole transitional period, but again is differently observed in the monitored countries. Therefore, the main task of the above research is to show the perceptions of respondents about the level of the current crisis and the degree of the certain factors of influence, both individually and as a whole (average) for all three countries. These three countries are relatively small and underdeveloped in terms of their geographical size and population, geopolitical importance, market size and aggregate demand, production, investment, export, and technological potential.

According to many non-economic indicators (political stability, democratization, liberalization and institutionalization of society, law, infrastructure develop-

ment, safety, security, investment, compliance with environmental and social standards, efficiency of the legal system, human rights respect, etc.), as well as economic indicators (purchasing power, rate of economic growth, foreign trade balance, current account deficit, public debt, inflation rate, unemployment rate, public expenditure, investments, etc.), they are characterized by a long-term transitional crisis of structural type.

Many authors believe that the main developmental constraint was a slow and inadequate pace of systemic, institutional, and other civilization changes (Draskovic, 2006). It has been hindering the convergence towards the developed countries. Regardless of the disagreement of the various economist groups (neoliberals, dirigist, institutionalists) regarding the method of convergence (gradualist or shock therapy), they are unanimous in their assessment that, in addition to the above, many other crisis elements were involved: consequences of the breakup of Yugoslavia, civil war and international economic sanctions, palliative and slow reforms, ballasts of the past and the transition (socio-pathological phenomena, deficit of democracy and the rule of law, illegal privatization process and misuse of state resources - Draskovic, 2006; Delibasic and Grgurevic, 2013) as well as the impacts of globalization (primarily geopolitical and geo-economic). Thus, during the 25 years of transition, these countries have failed to significantly overcome the negative effects of the following factors:

*The first* factor of influence relates to the legacy of the socialist ballasts (path dependence), of which the most important are: tendency toward paternalism, underdeveloped entrepreneurial culture, socio-pathological phenomena, NATO aggression, taking care of displaced persons, uniquely high hyperinflation, lack of political consensus, deep internal political and other divisions, administrative controls, anachronistic behavior that is characteristic for patriarchal societies, inefficient economic system, dogmatic notions of non-alternative development, cramped financial and non-existent factor market, undeveloped property structure, the dominance of politics over the economy and all areas of life and work, redistributive behavior, the institutionalization of privileges, procedural forms of domination and totalitarianism, unlimited political power, tendency toward soft budget policy, paternalism, factor income redistribution, minimum safety standards and various state guarantees, collectivist mentality of the people in relation to the authorities, fear of change, etc.

*The second* factor is related to the globalisation, geopolitics and geo-economics, the intensification of mutual relations between the great powers, and the increased struggle for resources (Engdahl, 2011; Luttwak, 1990; Lorot, 1999). There has been a breakup of the country, ambience of war, international economic sanctions, and increased dependence of foreign countries. Many authors (Berkowitz et al., 2003; Polterovich, 2012) have pointed to the negative phenomenon of “inappropriate” imported institutions (*bad fit*). Geopolitical and geo-economic impacts have been explained by Draskovic and Jovovic (2006), as well as Scekcic, Draskovic and Delibasic (2016). Also, P. Drucker (1999, pp. 63-65) has predicted the formation of global political structures and supranational authorities.

*The third* factor is the impact of the government, which has been analysed by O. Williamson (2000, p. 605). He believes that the ruling politic-economic structure (nomenclature of authorities) is always responsible for the development of institutions changes. A similar opinion represent Denzau A. and D. North (1994). Starting from the above understanding, there is no doubt that this is one of the major causes of failure of transition reforms. The negative impact of nomenclature of authorities and their opportunistic behavior associated with their continuity throughout the transition period, palliative and slow reforms, the deficit of the rule of law and democracy, illegal privatization process, abuse and erosion of state resources, which in practice proved detrimental for the economy and society.

*The fourth* factor is the deficit of real, effective, and pluralistic institutional changes (Draskovic, 2006; Draskovic, Bauk, and Delibasic, 2016). L. Csaba (1995, pp. 13-15) has argued long time ago that the “*systemic changes are the only possible source of economic growth.*” Among the systemic changes, the most significant are institutional changes, and within them the ownership changes, because the “*efficient institutional structure (primarily the property rights) are the most important condition for economic growth and development*” (North, 1997; Clague, 1997; Acemoglu, Johnson and Robinson, 2005; Hodgson, 2006; Ostrom, 2007). Postponement of real institutional changes in the considered countries meant the postponement of their economic and social progress. This has predominantly determined the reproduction of crisis. Besides, D. North (1987; 1990), D. Acemoglu et al. (2004), G. Hodgson (2006) and D. Rodrik (2000, 2007), have clearly pointed out that countries with weak institutional structures are much more prone to crises, which is measured by a drop in production and a variety of other economic indicators.

However, this postponement is not accidental, nor “*natural*”. On the contrary, it is the result of deliberate and interests establishment of various forms of quasi-institutional relations, where the force of institutional monism of the market type dominates, as well as privileged and anti-institutional individualism (Yerznkyan, Delibasic and Grgurevic, 2014). The basic method of implementing the anti-development reform has been monopolistic substitution of formal and informal institutions by alternative institutions and opportunistic behavior in practice (Delibasic, 2016; Delibasic and Grgurevic, 2013). As a result of the planned deficit of institutional changes in society, the economy have established new forms of dictatorship, dogmas, domination, alienation, and major social differences. D. North, J. Wallis, and B. Weingast (2009) call those phenomena “*violence*” or “*limited access order.*”

*The fifth* factor is neoliberal ideology (Kovacevic, 2015) and the corresponding neoliberal economic policy (Lakic and Draskovic, 2015) and the corresponding neoliberal economic policy (Lakic and Draskovic, 2015). It has had a monistic character (oriented to unlimited and uncontrolled market regulation), and in practice it turned into a quasi-neoliberal (being based on quasi-neoliberal values - Domazet, 2010; Delibasic and Grgurevic, 2013). It was constantly supported by the neoliberal rhetoric (Draskovic and Delibasic, 2014), giving priority to the improvised and monistic in-



stitutional choices of the market-type (Scekic, Draskovic and Delibasic, 2016), as well as to the privileged individualism (Vukotic, 2004; Draskovic, 2006), which is, according to its dictate, opposite to the logic of social reforms and civilized norms of behavior, because it leads to inequality in the treatment of economic operators, neutralizing the possibilities for improvement of economic and political institutions.

Neoliberalism has not accidentally gained in importance in the 1990s, especially in the period 2002-2005 (Boas and Gans-Morse, 2009, p. 139). The main reason was an absolutisation of the global neoliberal ideology and geo-economic aspirations. Their task was to create high dependence on the centers of power and their transnational corporations (Saad-Filho and Johnston, 2005, p. 1; Palley, 2005; O'Hara, 2014), using the so-called "minimal state". In all these countries, quasi-neoliberalism has manifested as an exploitative system of manipulative rationality, which caused the substitution of competitive liberalism through monopolistic totalitarianism, economic reductionism and dogmatism of the so-called "rapacious state," led by the so-called "new elite". In terms of development, such system is irrational and crisis-related, because it has allowed the increase of inequality, social pathology, great losses for the society, and enormous wealth of a few (privileged) individuals.

### **Methodological approach in researching the perception of a negative impact degree of the four independent variables on the level of socio-economic crisis in Bosnia and Herzegovina, Montenegro and Serbia**

The idea for this study is based upon the opinion of many authors (Draskovic, 2006; Draskovic, 2008; Mesaric, 2011; Polterovich, 2012; Delibasic, 2016), who point out that the reproduction of the crisis in these countries is dominantly influencing those five groups of factors. In this regard, we have researched their impact as independent variables on the level of transitional crisis in Montenegro, Serbia and Bosnia and Herzegovina (as dependent variable). The survey included 1,500 respondents (500 per country). The idea of this paper, applying multiple linear regression analysis and the mathematical model, is to determine the functional connection between the dependent variable ( $\bar{Y}$ ) and five independent variables ( $X_1, X_2, X_3, X_4$  i  $X_5$ ), defined as a theoretical framework.

### **Conducting research and results**

Through the quantitative part of the research, the focus was on data collecting, processing, and analysis. A nine-level Likert scale was used to measure the perceptions and assessments of the respondents, on the dependent variable (transitional crisis), as well as the independent variables (heritage of socialism, geopolitics, nomenclature authorities, deficit of institutional changes, and neoliberal

ideology), in a survey that was applied during the research. In measuring the dependent variable (transitional crisis), the scale marks were set from the lowest (1) to the highest (5).

Regarding the independent variables, the negative impact was measured from the minimum negative (1) to the maximum (5) on the dependent variable. The survey included filling out 500 questionnaires for each country (Montenegro, Serbia, and Bosnia and Herzegovina), which made a total of 1,500 respondents. Collected data for this study were processed by SPSS software. According to the purpose defined in the hypothesis of work, descriptive statistics were used for the data analysis, correlation analysis, and multi-correlation. The multiple linear regression model was applied after (the method of least square), as well as hierarchical multiple regression model.

### **Application of multiple linear regression analysis**

Before the regression analysis the descriptive statistics was performed. From the obtained results, the relevant results were singled out in the Table 13 and Table 14.

Statistical analysis of the data showed that the assumptions of normality and linearity of multi-correlation were met, which justifies the use of regression analysis model of the first order. All extreme values and atypical points were verified, and they also meet the prerequisites for the application of multiple linear regression model, for determination of the relationship between a dependent and independent variables. As shown, the correlation coefficient  $R$  and the coefficient of determination ( $R^2$ ) are sufficiently high (Table 14), and that also justifies the use of a multiple linear regression model.

Using the model of linear multiple regression resulted in obtaining coefficients for each variable (Montenegro, Serbia, and Bosnia and Herzegovina). They show the contribution of independent variable predictions, both in the national and the aggregate level. Those coefficients are shown in Table 15.

Table 13. Means end standard deviation

<i>Variables</i>	<i>Montenegro</i>		<i>Serbia</i>		<i>Bosnia and Herzegovina</i>		<i>Total</i>	
	<i>Mean</i>	<i>Standard dev.</i>	<i>Mean</i>	<i>Standard dev</i>	<i>Mean</i>	<i>Standard dev.</i>	<i>Mean</i>	<i>Standard dev.</i>
Crisis	2.7590	.73655	3.2590	.73655	3.7515	.72212	3.2560	.83582
Path depend.	2.8679	1.07412	3.8120	1.09666	3.8610	1.07260	3.5154	1.17298
Globalization	3.8940	.67652	4.3060	.52241	4.0560	.61776	4.0853	.63165
Politics	2.6320	1.28720	3.1120	1.25363	3.5431	1.15498	3.0953	1.28699
Institutions	3.5990	.78161	4.0870	.76229	4.5020	.49849	4.0613	.78485
Neoliberal ideo.	3.3236	.88945	4.4260	.53861	3.9279	.53755	4.1278	.76309

Table 14. **Coefficients correlation (R) and determination (R square)**

	<i>Montenegro</i>	<i>Serbia</i>	<i>Bosnia and Herzegovina</i>	<i>Total</i>
R	.906	.507	.699	.504(a)
R Square	.820	.502	.489	.254
Standard error of the estimate	0.39577	0.5190	0.51880	0.72317
Mean square	38.35	25.16	25.39	53.06
P value	0.000	0.000	0.000	0.000

Table 15. **Coefficients**

<i>Variables</i>	<i>Montenegro</i>	<i>Serbia</i>	<i>Bosnia and Herzegovina</i>	<i>Total</i>
(Constant)	5.942	5.896	6.870	4.635
Path depend.	-.080	-.364	-.361	-.212
Globalisation	-.087	-.243	-.147	-.232
Politics	-.099	-.220	-.244	.038
Institutions	-.085	-.096	-.243	.314
Neoliberal ideo.	-.617	.198	.210	-.261

The coefficients were obtained for each of the analyzed countries. Montenegro, Serbia, and Bosnia and Herzegovina. In fact, the coefficients were determined in a function of the dependent variable, that is, the slice on the Y-axis ( $b_0$ ) and coefficients ( $b_1, b_2, b_3, b_4, b_5$ ), which correspond to the independent variables,  $X_i, i = \overline{1,5}$  seriatim. Based on these values and average values estimated by the respondents, for each of the independent variables, were calculated „average“ values of the dependent variable  $\bar{Y}_s$ .

These values are shown in Table 1. Using model was obtained the values: 2.76; 3.26 and 3.74, respectively for the case of Montenegro, Serbia, and Bosnia and Herzegovina. Given that the participants have evaluated the level of transition crisis by one number on a scale of 1 to 5, this is a relatively high level ( $>2.5$ ).

Based on the mean estimated values of influences caused by independent variables on the dependent variable, which are relatively high in all cases (see Table 13 and Table 15), it can be concluded the predicted  $\bar{Y}_s$  as follows:

For Montenegro:

$$\bar{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

$$\text{Za } X_1 = 2.86. X_2 = 3.89. X_3 = 2.63. X_4 = 3.59. X_5 = 3.32$$

$$\bar{Y} = 5.942 + 0.08X_1 - 0.08X_2 - 0.09X_3 - 0.08X_4 - 0.61X_5$$

$$\bar{Y} = 2.76$$

For Serbia:

$$\bar{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

$$\text{Za } X_1 = 3.81. X_2 = 4.30. X_3 = 3.11. X_4 = 4.08. X_5 = 4.42$$

$$\bar{Y} = 5.896 - 0.364X_1 - 0.243X_2 - 0.221X_3 - 0.09X_4 - 0.19X_5$$

$$\bar{Y} = 3.26$$

For Bosnia and Herzegovina

$$\bar{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

$$\text{Za } X_1 = 3.86. X_2 = 4.05. X_3 = 3.54. X_4 = 4.50. X_5 = 3.92$$

$$\bar{Y} = 6.87 - 0.36X_1 - 0.14X_2 - 0.24X_3 - 0.24X_4 - 0.21X_5$$

$$\bar{Y} = 3.74$$

For all tree countries:

$$\bar{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

$$\text{Za } X_1 = 3.51. X_2 = 4.08. X_3 = 3.09. X_4 = 4.08. X_5 = 4.12$$

$$\bar{Y} = 4.63 - 0.21X_1 - 0.23X_2 - 0.03X_3 - 0.31X_4 - 0.26X_5$$

$$\bar{Y} = 3.25$$

The main conclusions based on the presented data are the following:

- (i) Standard error of estimate (Mean absolute percent error) in all three analyzed cases (Montenegro, Serbia, and Bosnia i Herzegovina) is medium, and amounts seriatim: 38%. 25% i 25%;
- (ii)  $\bar{Y}_s$  value can vary based on standard error of regression estimate (SE) for the values:  $\pm 0.39577$  in the case of Montenegro,  $\pm 0.51908$  in the case of Serbia, and  $\pm 0.51880$  in the case of Bosnia and Herzegovina;
- (iii) Correlation coefficient values (r) are above 0.6 in all three analyzed cases, suggesting a linear dependence, which is very strong;

- (iv) The data provide sufficient evidence to conclude that the model significantly contributes to the prediction  $\bar{Y}_s$  (p-value < 0.01. for all tree cases p-value = 0.000).
- (v) Coefficient of determination ( $R^2$ ) indicates that  $\bar{Y}_s$  is determined in 72% on the basis of the independent variables in the model (in the case of Montenegro), 52% (in the case of Serbia). and 48% (in the case of Bosnia and Herzegovina). These means that the variance of the dependent variable is high volume explained by variance of independent variables, especially in the case of Montenegro;

### Application of multiple hierarchical regression analysis

Furthermore, the analysis tested the ability of the model in order to predict the dependent variables without the direct influence of other variables. This was performed using hierarchical multiple regression model. The statistics of change is shown in Table 16.

Table 16. R Square and change statistics

Step	Montenegro		Serbia		Bosnia and Herzegovina	
	R Square	R Square Change	R Square	R Square Change	R Square	R Square Change
1	.377	.377	.399	.399	.379	.379
2	.425	.425	.433	.033	.388	.009
3	.500	.500	.485	.052	.458	.069
4	.510	.510	.496	.012	.478	.021
5	.714	.714	.507	.011	.489	.011

The first step was entering the variable - heritage of socialism; The second step – globalization; The third step - nomenclature authorities; The fourth step - deficit of institutional change; The fifth step - neoliberal ideology. Multiple hierarchical regression analysis indicates that each variable in all countries largely explains the significant percentage of change in relation to the variable  $\bar{Y}$ . Therefore the variables have not been excluded from the analysis.

## Examination and analysis of the results

Correlation and multi regression analysis were used to research the relation between the dependent variable (transitional crisis) and independent variables of socialism heritage, globalization, nomenclature of power, deficit of institutional changes and neoliberal ideology. They provided defining the model of functional connection which has previously been shown. On the basis of coefficients ( $b_1, b_2, b_3, b_4, b_5$ ) it is reliably predicted change of the mean of the variable  $\bar{Y}$ .

In case of Montenegro: if  $X_1$  is increased by one unit and other independent held constant,  $\bar{Y}$  will be decreased by 0.08; if  $X_2$  is increased by one unit, and other independent held constant  $\bar{Y}$  will be decreased by 0.08; if  $X_3$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.09; if  $X_4$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.09; if  $X_5$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.09.

In case of Serbia: if  $X_1$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.36; if  $X_2$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.24; if  $X_3$  is increased by one unit, and other independent held constant  $\bar{Y}$  will be decreased by 0.22; if  $X_4$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.09; if  $X_5$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.19.

In case of Bosnia and Herzegovina.: if  $X_1$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased 0.36; if  $X_2$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.14; if  $X_3$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.24; if  $X_4$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.24; if  $X_5$  is increased by one unit, and other independent held constant,  $\bar{Y}$  will be decreased by 0.21.

Results of linear regression analysis and hierarchical regression confirm the validity of the basic hypothesis according to which the perceived value of transitional crisis is relatively high and influence of independent variable is relatively high (subjectively rated by the respondents). Hierarchical regression analysis shows that each variable significantly contributes to the explanation of the variance of dependent variable.

The level of transitional crisis is the largest in Bosnia and Herzegovina (mean is 3.75), then in Serbia (mean is 3.25) and the lowest is in Montenegro (2.75). Comparison of means by variables is shown on the Figure 23.

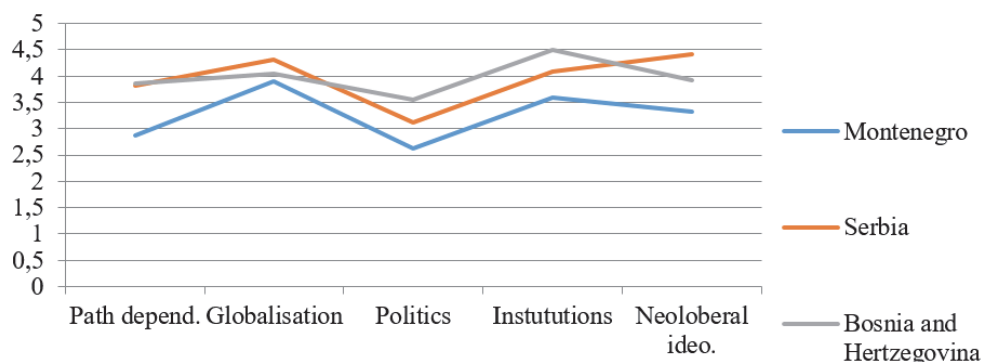


Figure 23. **Comparison data by countries**

The graph 1 shows that the level of different perception of independent variables in different countries. Bosnia and Herzegovina regarding the level of transition crisis is in worst situation than Serbia and Montenegro. Also, the negative influence of independent variables is the stronger in Bosnia and Herzegovina, after that in Serbia, then in Montenegro. Montenegro is in better situation than other countries, in all researched aspects.

The existence of differences is expected because in the previous process of transition various economic, political, institutional and social changes have been realized. There are also other factors which have not been examined in this paper. Still, presented results clearly show similarity of models of influence and functional dependency, on the basis of common factors of influence research.

Theoretical part of this paper explains that the transitional crisis is influenced by different institutional, economic, political, cultural, and the following factors: conflicts of formal and alternative institutions, global processes, liberalization of economy, domination of politics, etc. Characteristically, they had a multiple impact through several independent variables which we have analyzed in three countries in transition (Montenegro, Serbia, and Bosnia and Herzegovina). During the socialist period, these countries had centrally-planned economies, limited economic growth, and spiral reproduction of the crisis. However, they are a typical example of the general situation in the Eastern Europe.

Therefore, the results of this research are expected to contribute to the understanding the transitional crisis in the most Eastern European countries. Apart from some positive processes and improvements (in business environment, tourism, libe-



ralization, civil society, civil and political rights, democracy, freedom of the media, the development of a knowledge society, environment for investments, etc.) the observed countries experienced the intensification of the social, political and economic crisis for the last 25 years. Conducted Empirical research has verified it. A number of negative factors provoked the transitional crisis. The most important of them (from my perspective) are selectively identified and explored in this research.

Empirical part of the research has confirmed that the transition crisis is dominant in all three countries. The multiple linear regression analysis, through chosen mathematical model, has determined the functional relationship between a dependent variable and the five independent variables, defined by the theoretical framework of this study. It has been confirmed that the independent variables largely explain the level of transitional crisis. Particularly negative were the effects of neoliberal ideology and institutional deficit. Thus, the perception of the respondents and the results obtained after statistical data analysis have shown the correctness of the initial hypotheses of this paper – the transitional crisis is present to a worrying extent, and it is greatly affected by: the legacy of socialism, globalization and geopolitics, the nomenclature authorities, the deficit of institutional changes, and neoliberal ideology. Also, the linear relationship has been a fascinating display of functional dependence, describing the observed phenomena (relatively high value of the correlation coefficient).

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# THE IMPACT OF NEOLIBERAL ECONOMIC POLICY ON ECONOMIC DEVELOPMENT IN THE COUNTRIES OF SOUTHEAST EUROPE

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*The subject of this paper is to analyze the achieved economic development level perception in selected post-socialist countries of South-Eastern Europe (SEE). It aims to evaluate the level of negative impact of neoliberal economic policy and its components on the economic development level in the observed countries. It starts with the hypothesis that neoliberal economic policy had many negative manifestations and consequences (economic, institutional, and social) in SEE countries, which have greatly turned it into quasi-neoliberal economic policy. For researching the perception of the impact of neoliberal macroeconomic policy key levers on economic development, the multiple linear regression method is used. In conclusion, the high impact level of neoliberal economic policy and all its elements on the low economic development level is noted.*

Many theoretical discussions about consistency of neoliberal economic policy have been conducted in the last three decades. Many authors believe that neoliberalism, as an ideology of domination of the privileged, and the appropriate economic policy as the basic leverage of the state regulation institution, is a well-planned project for the restoration of capitalism. J. Peck (2010, p. 7) argues that most authors have noticed the conceptual evolution of neoliberalism from esoteric and context-heterogeneous economic doctrine (the end of 1970s), through contradictory and hegemonic formula for market deregulation and privatization (the beginning of 1980s), to a decentralized and expansive model of political, economic, cultural, ideological, and institutional indoctrination, which “*can only exist in messy hybrids*”.

The paper investigates the impact of official neoliberal economic policy on the economic development in SEE countries from a theoretical, practical, and model aspects. The survey was conducted on the perception of highly educated respondents (480) about the achieved level of economic development and the effects of the basic elements of neoliberal economic policy. The survey was carried out on a sample of over 120 respondents in each of the four selected SEE countries: Bosnia and

Herzegovina (BaH), Macedonia FYR (MAC), Montenegro (MNE), and Serbia (SER). The research used multiple linear regression method to determine the hypothetical perceptions of the impact of the basic leverages of neoliberal economic policy on economic development. In fact, these are the same or similar factors that have impacted the long-term reproduction of economic crisis in SEE countries. The results indicate the impact of neoliberal economic policy and its consequences in the crisis practice of SEE countries.

### **Neoliberalism in theory**

The literature is dominated by opinions that are in line with R. Munck's definition (2005), according to which neoliberalism is "*the dominant ideology shaping our world today*". Thus, for example, P. Anderson (2000, p. 17) points out that it is about "*the most successful ideology in world history*". The consideration of political and ideological dimension of neoliberalism goes beyond the scope of this article. Although, one should not neglect the opinion of H. Overbeek and B. van Apeldoorn (2012, p. 4) that neoliberalism is a political project "*aimed at restoring capitalism*".

However, many authors argue that the political thought (philosophy) of M. Friedman, R. Nozick, and F. Hayek is not completely clear, defined, and homogeneous, because it phenomenologically relates to a wide area of political beliefs and ideas. Thereby, all segments of this area extend more or less to the economic terrain. Finally, Friedman's "*freedom of choice*" or Hayek's "*spontaneous order*" are ambiguous, because it's not clear to whom and what they refer to. In that sense, neoliberals avoid to answer the question: is democracy a necessary condition for establishing the "order" they advocate?

D. Harvey (2005) has noted the paradox (contradiction) that neoliberalism can be carried out under the auspices of autocratic parties and liberal democracies. In most post-socialist countries, the practice has confirmed the correctness of the above-mentioned theoretical "diagnosis". It turns out that dichotomy is a free market - a state intervention for neoliberals is far more important than democracy! Because of all this, it is considered (Hall, 2011, Rustin, 2016) that neoliberalism as a concept, a phenomenon, a process, and an ideology, is not clearly defined theoretical concept. S. Mudge (2008, p.703) has more critically characterized it as "*an oft-invoked but ill-defined concept*", and J. Clarke (2008, p. 135) have said it is "*promiscuous*".

We think that it is particularly possible to criticize the consistency of neoliberal concept from the perspective of the state and institutions. For, the state must define and provide the necessary and optimal institutional frameworks for the legal functioning of the market, regardless of whether these frameworks are "minimal" or "maximal". Consequently, institutions must be pluralistic by definition, since in each economy there is a parallel function of some combination of state regulation institutions and market regulation institutions (Delibasic, 2014; Draskovic and Delibasic, 2014).

It is directly opposite to the functionally and methodologically unsustainable neoliberal market monism, and even more opposite to the factual quasi-monism, which is manifested in the practice of post-socialist countries.

Some authors (Venugopal, 2015) have proved that neoliberalism is “*a deeply problematic and incoherent term that has multiple and contradictory meanings*”. A lot of critiques has been written on the basic dichotomy which is the ground for neoliberalism as a specific macroeconomic policy regime. Seemingly, the best version of all these critiques has been successfully sublimated by J. Stiglitz (2008, p. 42) in his statement: “*Markets by themselves do not produce efficient outcomes when information is imperfect and markets are incomplete*”. It is not our intention to support certain pejorative interpretation of neoliberalism. However, any consistent criticism must take into account the views expressed by N. Chomsky (1999), A. Touraine (2001), A. Saad-Filho and D. Johnston (2005), R. Hagen (2006), S. Lakic and M. Draskovic, 2015; V. Draskovic et al. (2017), B. Yerznkryan et al. (2017) and others.

With their interpretations, they have eliminated all obscurities in terms of defining neoliberalism, which emanate from three basic reasons: *First*, due to the unsustainability of its basic theoretical premises in applying the appropriate economic policy in practice; *Second*, due to the fact that neoliberal economic policy was more monistic than pluralistic in institutional sense, (as the so-called “*market fundamentalism*” - a term by J. Stiglitz) and/or quasi-monistic (through the powerful action of alternative institutions and opportunistic behavior in most transitional countries), and *Third*, due to the wrong efforts of some authors (Madzar, 2015) to show the alleged continuity between traditional liberalism (which has existed historically from feudalism and afterwards) and neoliberalism (which has been developing through the alleged “*liberal tradition*” in terms of achieving individual freedom and/or democracy).

This is a good opportunity to mention a paradoxical discussion, which appeared in 2015 at a scientific meeting in Belgrade entitled “*Our scientific disputes: Liberal and communitarian options in institution-building and economic policy*”. Namely, on that meeting, proven neoliberals (Madzar, 2015) have denied the existence of neoliberalism by calling themselves the liberals. In this way, they identified classical liberalism with neoliberalism. In doing so, they carelessly and unknowingly referred to the traditions of great liberal thinkers of the distant past, ignoring the fact that they gained fame fighting against feudal tyranny and absolutism, fighting for human rights, constitution, and civil liberties. In theoretical interpretation of neoliberalism, two symptomatic facts must be taken into account: *first*, this institutional monistic concept emerged as a synergy of intellectual apologetics (about individual and market freedom), bureaucratic abuse (when implementing macroeconomic policy with sophisticated dirigistic methods), and privileged political interests (indirect control of business), and *second*, a term neoliberalism, which some authors carelessly consider as “*macroeconomic doctrines*” (see, for example, Ferguson, 2010, p. 170) is not included in any serious macroeconomic textbook!

In the development of economic thought, there were many famous “liberals” (classic and modern), especially from the aspect of economic policy, that is, the role of state in the economy. We will not analyze the universal division on “libertarianism” and “liberal egalitarianism”, or e.g. distinguishing neoliberalism as “*a theory of political economic practices*” and as “*political ideology*” (Harvey, 2005). For our analysis it is much more important that even among all these “liberals” and “neoliberals” there is no unison on the issue of desirable boundaries between freedom and tolerance, the form of the welfare state, and democracy index in society (see more: Ryan, 1993, p. 291). Therefore, we think that there are only two recognizable and dominant aspects (common points), which can at least seemingly combine traditional liberals (from various historical periods and philosophical-political perspectives) with neoliberals. And those are: *methodological aspect*, generated in advocacy for individualism (Kidrina, 2015), which is directly opposed to social collectivism, and *institutional aspect*, generated in advocacy for the monistic concept of market regulation, which is directly opposed to the state regulation.

Many opposed and heterogeneous theoretical interpretations of neoliberalism have contributed to the conclusion of some authors (Saad-Filho and Johnston, 2005, p. 1) that “*we live in the age of neoliberalism*”. S. Clarke (2005) has even glorified it, concluding that it was a “*new paradigm of economic theory*,” and F. Fucuyama (1992) said that it was about *the end of history*”.

### **Neoliberalism in reality**

Clearly, all the above interpretations have not been relevant in practice, which has shown the obvious difference between theoretical “speeches” and completely opposite practical manifestations, or the consequences of neoliberalism. It is symptomatic that even those authors (Saad-Filho and Johnston, 2005) have noticed large disproportions between theory and practice, and thus they have concluded that it is “*impossible to define neoliberalism purely theoretically*”.

Viewed through the prism of several key indicators of social and economic development (the rule of law, individual freedom in mass proportions, democratic governance level, monopolization level, opportunistic behavior, elitism in society, poverty, unemployment and violence in society, under which D. North et al. (2009) imply various forms of social pathology) it can be concluded with certainty that both of these aspects - methodological and institutional - have been significantly negated (degraded, compromised, misused, and neglected) in social and economic reality.

Long-term practice in most SEE countries has shown that there was a real and big discrepancy between neoliberalism as a metaphysical ideal and its controversial practical quasi-manifestations. It is a controversial, inconsistent (Garrett, 2013, p. 81) and unsuccessful concept of social development based on neoliberal economic



policy as the dominant form of state regulation. It proved its irrelevance, unilateralism, inconsistency, and unsustainability in SEE countries. Namely, numerous limitations and very poor results have emerged in practice. Primarily the key social and formal institutions have been destabilized, and especially those that by its nature must be protected from the market competition (healthcare, education, and science). Highly crisis practice has shown that liberalization is not the same as violence against it. In this way, neoliberalism was manifested as a tried-and-true method of ignoring reality.

Social and economic practice has relativized the mythical neoliberal propaganda about the eternity of “*spontaneous evolution*” (F. Hayek) and the universality of the “*market self-regulation*” principle (Fukuyama, 1992). Nevertheless, monistic neoliberal instrumentalizations and institutional improvisations are still present in some SEE countries. Contrary, social and economic reality in developed countries has verified the imperative developmental need for institutional convergences, combinations, and synergy (institutional pluralism).

Many causes have led to disintegration of the former Yugoslavia. The inherited social, institutional and economic crisis, economic sanctions, warfare, prolonged economic recession, and the absence of promised reforms stand out as the most significant. They were a fertile ground for strengthening unrealistic neoliberal ideas. Average GDP growth rates in the period 1991-2005 were relatively low, and in the period 2006-2017 they ranged between 2-3%. However, these are merely heterogeneous statistical data, and achieved economic growth is only one component of economic development. Due to the lack of institutional changes, structural changes, and sustainable development in SEE countries, significant economic development has not been achieved. In addition, the unemployment rate is relatively high (26% in B&H, 18% in MNE, 22% in MAC, and 16% in SER), high trade deficit and fast growth in public debt is 5.7 € billion in B&H (35.6% GDP), over 3€ billion in MNE (69% GDP), 7.5€ billion in MAC (54% GDP) and 22.2€ billion in SER (64.7% GDP). Looking into the future, the worst indicator is the decline in higher education quality, and consequently the decline in socio-cultural capital.

### **Neoliberalism in the perception of people**

All respondents have high education in the field of economics. Most of them are experts in the management. They were asked to evaluate, based on their best knowledge, experience and(or) intuition, the dependent variable in the model, defined as the *level of economic development* (each respondent for the corresponding in his/her own country). They were also asked to evaluate the values of four independent variables in the model, defined as the negative impact factors (negative externalities – neoliberal “recipes”) at economic development, which related to: neoliberal macro-economic policy, deregulation and dominance of institutional monism (market regu-

lation); politicization as a deliberate misuse of macroeconomic policy; liberalization and privatization (non-market appropriation of state resources); and, forcing privileged and elitist individualism.

In all cases, respondents used a Likert-type scale (1.0, 1.5, 2.0, 2.5, 3.0, 3.5, 4.0, 4.5, 5.0), where 1.0 indicates the lowest impact, and 5.0 indicates the highest impact. Designing the survey and the analysis took into consideration the existing similar political, economic, cultural and institutional conditions in the countries concerned. For the needs of the survey, the respondents have been divided into three groups: the first, the institutional neutral (university professors and assistants), the second, the civil servants (senior public officials), and the third, the owners of private sector firms (private sector entrepreneurs). Following regression analysis have included both separate and integral data for all three considered groups.

### **Multiple linear regression model**

The intention is to create a mathematical model based on multiple linear regression analysis, or, to create a functional relationship between the dependent variable (Y): *level of economic development* and independent variables ( $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$ ): (i) *neoliberal macroeconomic policy, deregulation and dominance of institutional monism (market regulation)*, (ii) *politicization as a deliberate misuse of macroeconomic policy*, (iii) *liberalization and privatization (non-market appropriation of state resources)*, and (iv) *forcing privileged and elitist individualism*, which all negatively affect dependent variable. The aim is to assess expected mean value of the dependent variable ( $\bar{Y}$ ), based on the individual assessments of the respondents. As the respondents have made the assessments, through a survey and on their own discretion, of the dependent variable Y and independent variables ( $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$ ), the task is, in line with the requirements of multiple linear regression, to determine the coefficients ( $b_0, b_1, b_2, b_3, b_4$ ) and to calculate  $\bar{Y}$ , using formula (1):

$$\bar{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 \dots (1)$$

Where,

$\bar{Y}$  - is the mean expected value of the dependent variable;

$b_0$  - is Y-axis intercept, determined on the basis of used sample;

$b_1, b_2, b_3, b_4$  - are coefficients of variables  $X_i, i = \overline{1,4}$ , respectively, or slopes of the corresponding lines.

It means that for any new value of each independent variable from a predefined interval, one can estimate the value of the dependent variable. It can be said that  $\bar{Y}$  is „average“ assessed value, since it is the mean value of the probability distribution of possible values of Y for a given values  $X_i, i = \overline{1,4}$ . To determine  $\bar{Y}$  is used the least-squares method (Bertsikas et al., 2008). In fact, our goal here is to determine the coefficients ( $b_0, b_1, b_2, b_3, b_4$ ), so as to minimize the sum of squared errors (SSE), which is represented by formula (2):

$$SSE = \sum_{k=1}^n (Y_k - \bar{Y}_k)^2 = \sum_{k=1}^n (Y_k - (b_0 + b_1 X_{1k} + b_2 X_{2k} + b_3 X_{3k} + b_4 X_{4k}))^2 \dots (2)$$

Where,

$Y_k$  - is actual value of the dependent variable, given by the k respondents ( $k = \overline{1, n}$ );

$\bar{Y}_k$  - is the assessed value of the dependent variable on the basis of the model, in the case of k respondents ( $k = \overline{1, n}$ );

$n$  – is the total number of respondents (per 40 in MNE, SER, BaH, and MAC),  $k = \overline{1, n}$ .

Using the least-squares method, here is actually determined a straight line, which minimizes the sum of vertical differences for each pair of points (Balakrishnan et al., 2007). Or, in other words, determined is a straight line that best fits the available set of points, by determining the optimal value of Y-axis intercept ( $b_0$ ), as well as coefficient ( $b_1, b_2, b_3, b_4$ ), in order to obtain a more accurate value of  $\bar{Y}$  for the given (or, assessed) values of  $X_i, i = \overline{1,4}$  and Y (for  $\forall k, k = \overline{1, n}$ ). The realization of multiple linear regressions is very complex, and therefore it is recommendable to leave it to the computer. In order to do this, one can use: SPSS (Sheridan and Coakes, 2013; Pallant, 2011), special embedded Excel VBA tools as Excel Modules Solver, which we used in these analyzes, and other similar tools.

## Corresponding statistical values

Besides the evaluated the average value of the dependent variable  $\bar{Y}$  and vector  $(b_0, b_1, b_2, b_3, b_4)$ , based on the model presented above, the following statistical values can be calculated: mean absolute deviation, mean square error, mean absolute percent error, standard error of regression estimate, correlation coefficient and coefficient of determination. The formulas used to calculate these values are given below, along with their short descriptions.

*Mean absolute deviation* (MAD) gives the numbers on how much the value of the dependent variable, obtained through multiple regression analysis, corresponds to the estimated value by the respondents, or in other words, to what extent the model reflects the perception of the respondents (3).

*Mean square error* (MSE) is the mean value of squares of the individual errors of assessment. In other words, if we have  $n$  number of respondents, MSE value is calculated using the formula (4). MSE points expressed deviations.

*Mean absolute percent error* (MAPE) shows the error between the estimated value and value of dependent variable as a percentage, obtained by using the model. MAPE is the simplest statistical value for interpretation (5).

The formulas for calculating the values of the previously presented errors in the model are given below:

$$MAD = \sum_{k=1}^n |A_k - F_k| / n \quad \dots (3)$$

$$MSE = \sum_{k=1}^n (A_k - F_k)^2 / n \quad \dots (4)$$

$$MAPE = 100 \sum_{k=1}^n [|A_k - F_k| / A_k] / n \quad \dots (5)$$

Where,

$A_k$  - is an actual value of a variable (value estimated by respondents),  $k = \overline{1, n}$  ;

$F_k$  - is an estimated value (by model),  $k = \overline{1, n}$  ;

$n$  – is a number of respondents (per 40 in MNE, SER, BaH, and MAC).

*Standard error of the regression estimate* (SE), is also called the standard deviation of regression. This statistical value is suitable for the formation of the so-called confidence intervals around the regression line. It indicates how much the value of the dependent variable, obtained by the model, can vary numerically (6).

*Correlation coefficient* –  $r$ , is used to estimate the strength of linear relationships. Generally, if correlation coefficient is higher than 0.6, it is considered to be a strong linear relation (7).

*Coefficient of determination* -  $r^2$ , is a value between 0 and 1, which indicates to what extent (percentage) dependent variable depends on the independent variables included in the model. For instance, if  $r^2$  is 60%, it means that the value of the dependent variable 60% depends on the independent variables in the model, and 40% on other factors (variables) that are not included in the model (8).

General formulas for calculating the standard deviation, correlation coefficient, and coefficient of determination are given below:

$$SE = \sqrt{\sum (A_k - F_k)^2 / (n - 2)} \dots \quad (6)$$

$$r = \frac{n \sum A_k F_k - \sum A_k \sum F_k}{\sqrt{[n \sum A_k^2 - (\sum A_k)^2][n \sum F_k^2 - (\sum F_k)^2]}} \dots \quad (7)$$

$$r^2 = \left\{ \frac{n \sum A_k F_k - \sum A_k \sum F_k}{\sqrt{[n \sum A_k^2 - (\sum A_k)^2][n \sum F_k^2 - (\sum F_k)^2]}} \right\}^2 \dots \quad (8)$$

Where,

$A_k$  - is an actual value of a variable ( $k = \overline{1, n}$ );

$F_k$  - is an estimated value ( $k = \overline{1, n}$ );

$n$  – is a number of respondents (per 40 in MNE, SRB, BaH, and MK).

### **Analysis of the obtained results**

The respondents, namely per 40 experts: university professors and assistants, senior public officials, and private sector entrepreneurs from MNE, SER, BaH, and MAC (a total of 120 per each considered country), were asked to estimate the dependent (Y) and four independent variable in the model ( $X_1, X_2, X_3$  and  $X_4$ ), each with a number on a scale from 1 to 5. The respondents were supposed to estimate the *level of economic development* (dependent variable), as well as the extent to which the following independent variables:

- i *neoliberal macroeconomic policy, deregulation and dominance of institutional monism*,
- ii *politicization as a deliberate misuse of macroeconomic policy*,
- iii *liberalization and privatization (non-market appropriation of state resources)*, and

- iv *forcing privileged and elitist individualism* – negatively affect the level of economic development in each of the considered Balkan countries.

The values of statistical parameters, described in the previous section, have been calculated as well, in order to analyze the reliability and accuracy of the proposed model.

### Numerical and graphical presentations

By using Excel Modules Solver are obtained the results of multiple regression analysis, for all categories of respondents, and for each of the analyzed countries, MNE, SER, BaH, and MAC. More precisely, determined are coefficients in a function of the dependent variable, that is, the slice on the Y-axis ( $b_0$ ) and coefficients ( $b_1, b_2, b_3, b_4$ ), which correspond to the independent variables,  $X_i, i = \overline{1,4}$ . Based on these values and average values, estimated by the respondents, for each of the independent variables are calculated average values of the dependent variable  $\overline{Y}_s$ . These values are shown in Table 17. By using the proposed model are obtained the values  $\overline{Y}_s$ : 3.1; 2.6; 2.7; and, 2.0 respectively for the case of MNE, SER, BaH, and MAC. Taking into account the fact that the participants have assessed the *level of economic development* by one number on a scale of 1 to 5, these are relatively low levels.

Based on the mean estimated values of influences caused by independent variables (denoted here as MV1, MV2, MV3, and MV4) on the dependent variable (MV5), it can be concluded that they are relatively high in all cases (see Tab. 18 and Table 20), particularly in the cases of university professors and assistants and private entrepreneurs. Accordingly, it can be concluded that university professors and assistants have lost confidence in the independent functioning of the market due to their vulnerable social-economic position and low salaries, while private entrepreneurs are mostly dissatisfied with rather low profit.

Table 18 contains numerical values: mean absolute deviation (MAD), mean square error (MSE), mean absolute percent error (MAPE), standard error of the regression estimate (SE), correlation coefficient  $r$ , and coefficient of determination ( $r^2$ ).

**Table 17. Mean values of the dependent variable  $\bar{Y}_s$  in the case of MNE, SER, BaH, and MAC (integral)**

	Montenegro (MNE)	Serbia (SRB)	Bosnia and Herzegovina (BaH)	Macedonia (MK)
$b_0$	5.147	3.819	4.594	4.265
$b_1$	-0.048	-0.200	-0.008	-0.165
$b_2$	-0.153	-0.189	-0.224	-0.051
$b_3$	-0.370	-0.036	-0.145	-0.291
$b_4$	-0.028	0.087	-0.148	-0.068
$\bar{Y}_s$	3.1	2.6	2.7	2.0

Source: own

**Table 18. Errors, coefficients of correlation and determination**

	Montenegro (MNE)	Serbia (SRB)	Bosnia and Herzegovina (BaH)	Macedonia (MK)
MAD	0.470	0.284	0.428	0.413
MSE	0.337	0.121	0.293	0.259
MAPE	16.00%	11.50%	18.70%	24.44%
SE	0.593	0.355	0.553	0.519
r	0.528	0.544	0.517	0.482
$r^2$	0.279	0.294	0.267	0.232

Source: own

Based on the data in Table 18, we can conclude the following:

Mean absolute percent error in all four analyzed cases (MNE, SER, BaH, and MAC) is acceptable: 16.00%; 11.50%; 18.70%; and, 24.44%;  $\bar{Y}_s$  value can vary based on standard error of regression estimate (SE) for the values:  $\pm 0.593$  in the case of MNE;  $\pm 0.355$  in the case of SER;  $\pm 0.553$  in the case of BaH; and,  $\pm 0.519$  in the case of MAC; Correlation coefficient values (r) are below 0.6 in all four analyzed

cases, suggesting a linear dependence, which is weaker than the one that could be considered „strong“;

Coefficient of determination ( $r^2$ ) indicates that  $\bar{Y}_s$  is determined in only 27.9% on the basis of the dependent variables in the model, for example, in the case of MNE, and that 72.1% depends on other factors, which are not included in the model. Aforesaid is explained by the following factors: the survey included free groups of respondents, of which one group of people have a satisfactory position in society in the current moment (senior public officials), while university professors and assistants, as well as private entrepreneurs are more radically exposed to the numerous negative effects of market deregulation and other sources of economic disorders, which are not limited to those here analysed. Similar or almost the same conclusions can be drawn in the cases of SER, BaH, and MAC.

Following are the graphs (Figure 24-27) showing the actual values of the dependent variable  $Y$ , determined on the basis of subjective estimation of 120 respondents from MNE, SER, BaH, and AC as well as those calculated by the model, that is,  $\bar{Y}$ .



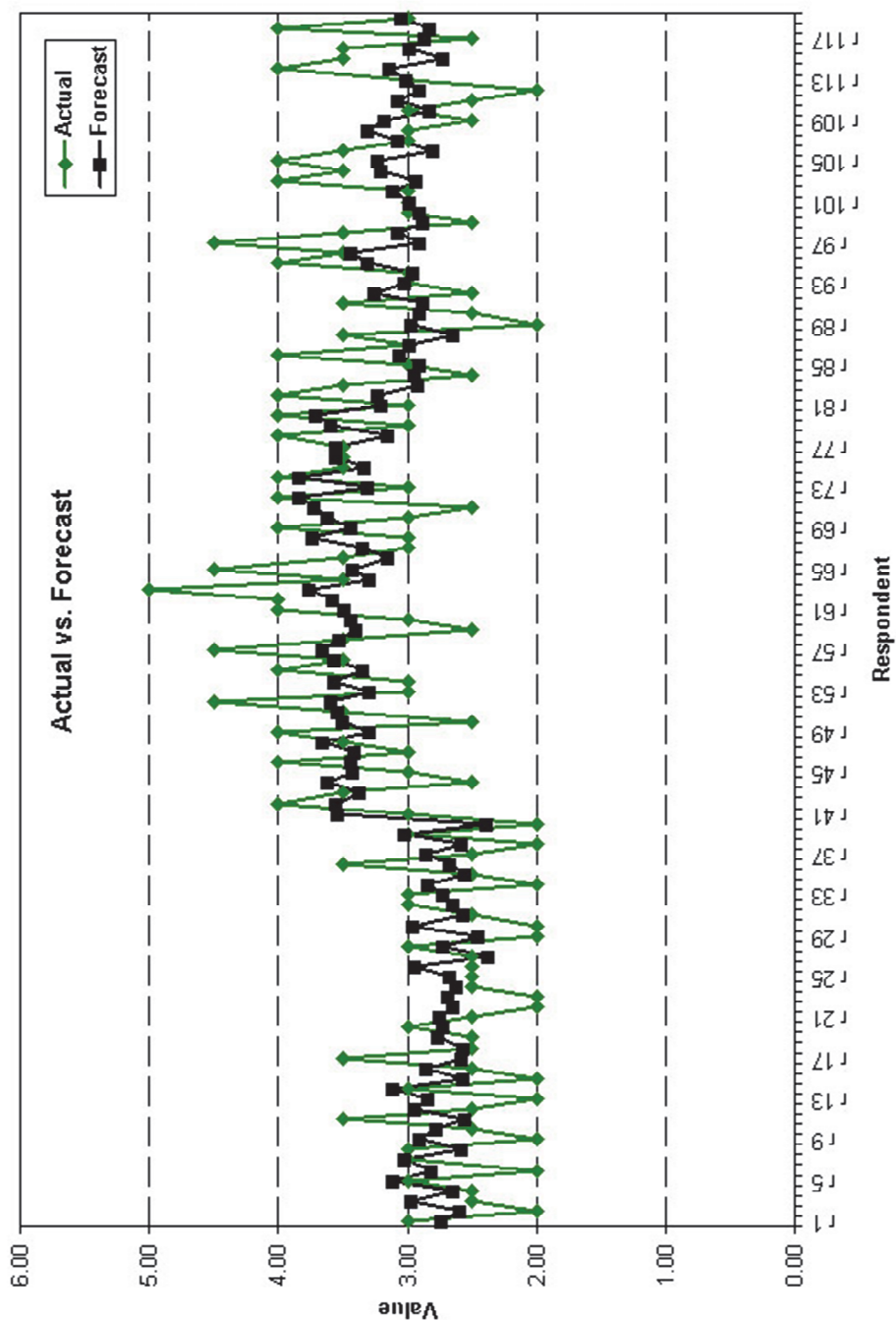


Figure 24. The values of the dependent variables, estimated by respondents and those determined by the model, in the case of Montenegro

Source: own

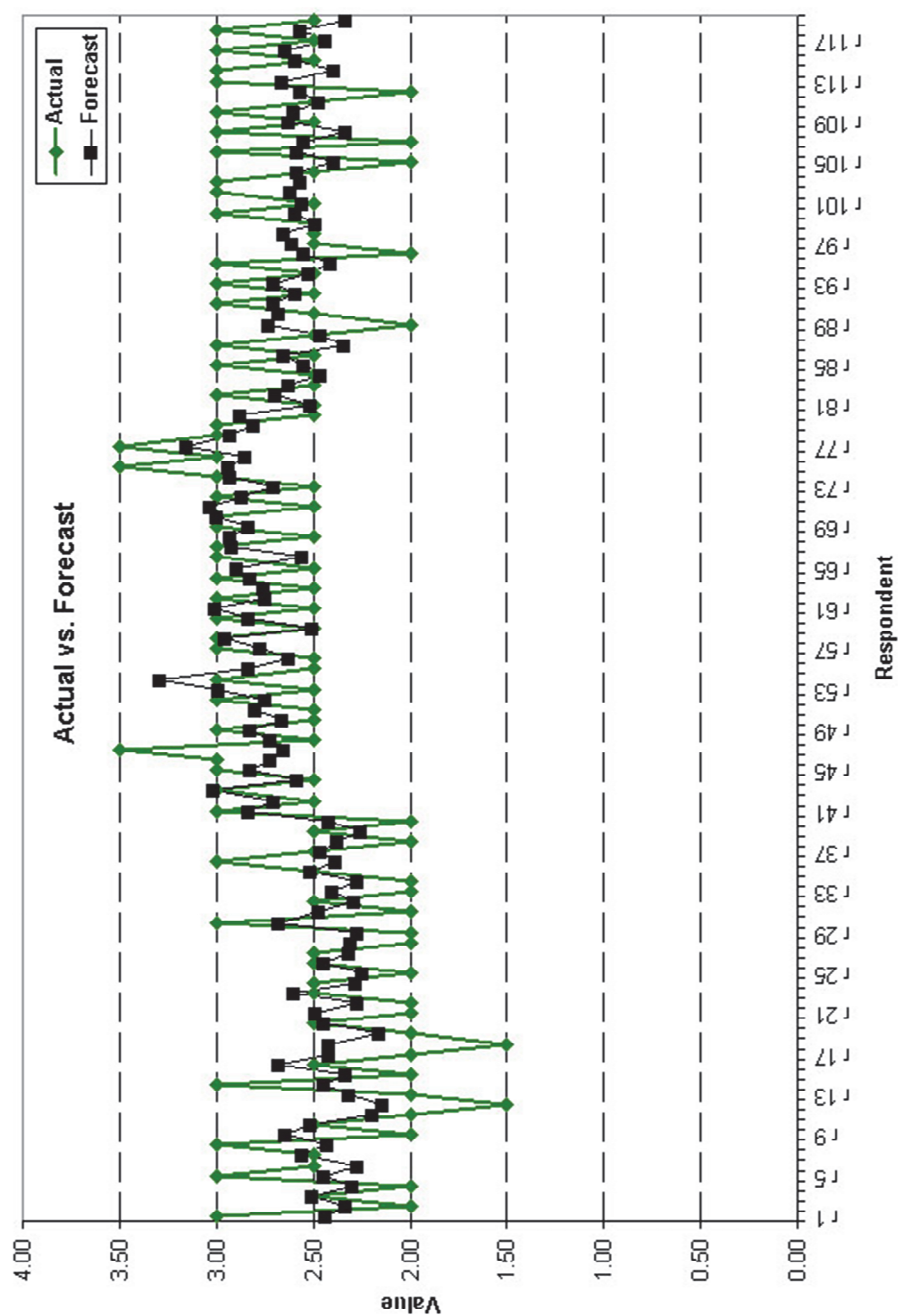


Figure 25. The values of the dependent variables, estimated by respondents and those determined by the model, in the case of Serbia

Source: own

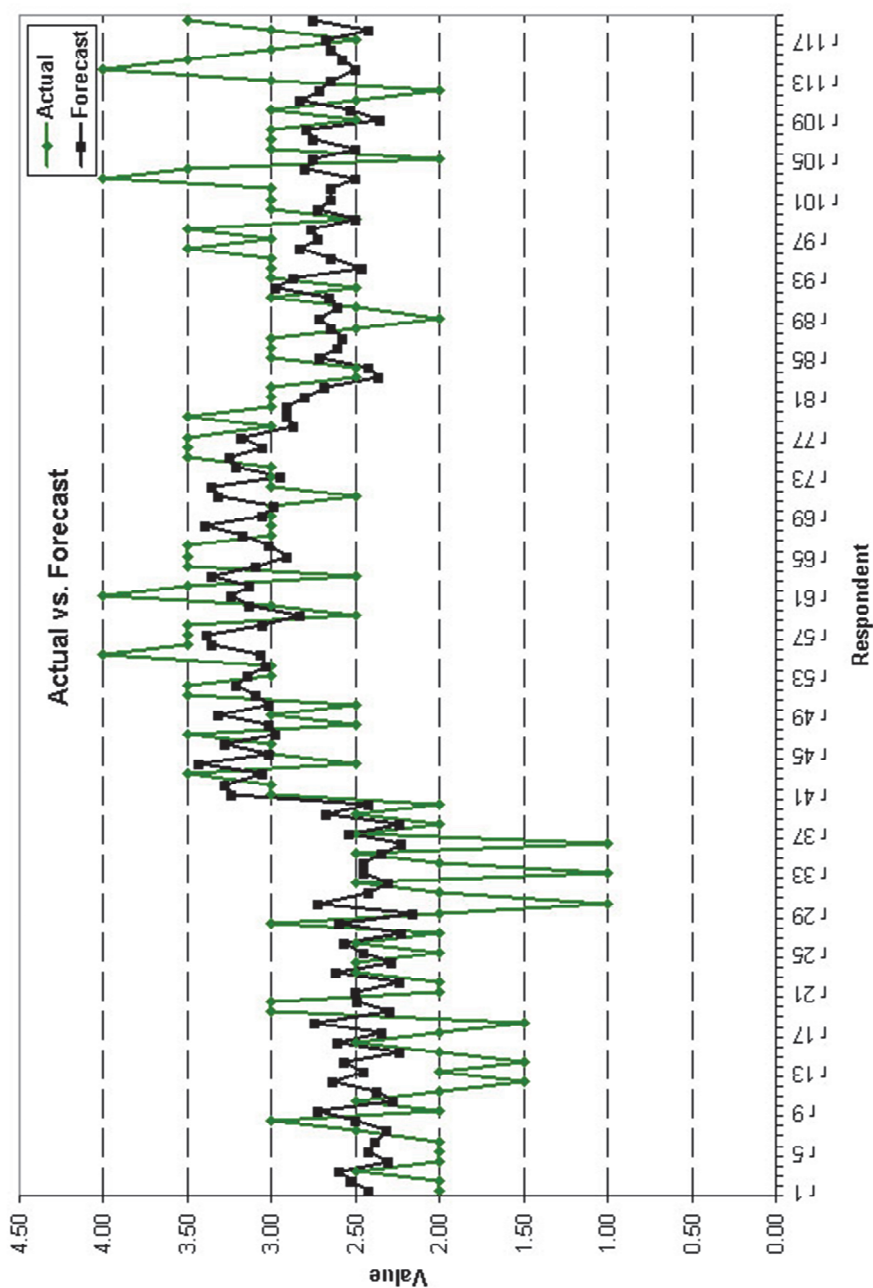


Figure 26. The values of the dependent variables, estimated by respondents and those determined by the model, in the case of Bosnia and Herzegovina

Source: own

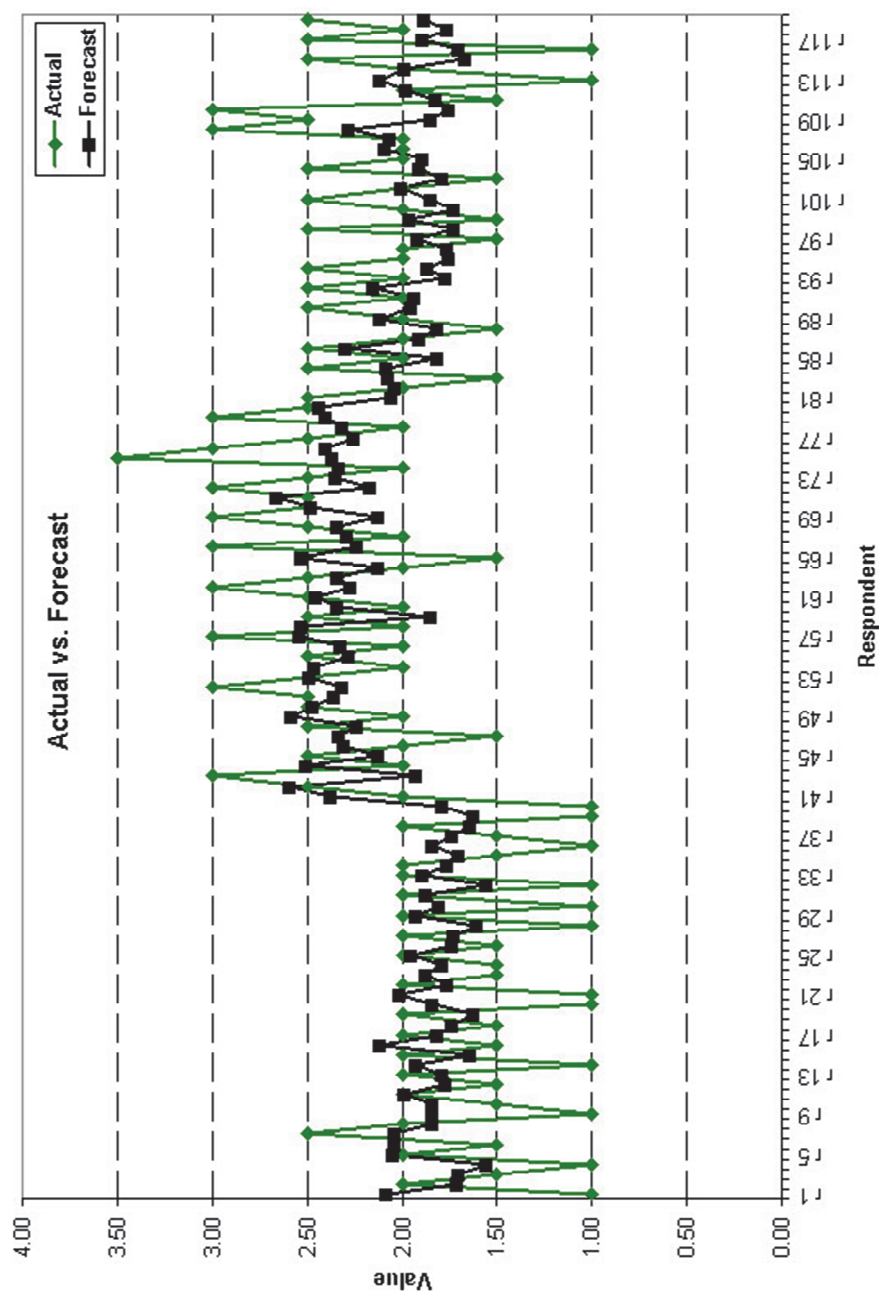


Figure 27. The values of the dependent variables, estimated by respondents and those determined by the model, in the case of Macedonia

Source: own

By analogy, it is possible to perform calculations for each of the categories of respondents, independently: university professors and assistants, senior public officials, and private entrepreneurs from MNE, SER, BaH, and MAC. The results of these additional analyses are given in Tab. 19

**Table 19: Mean values of the dependent variable  $\bar{Y}_s$  in the case of MNE, SER, BaH, and MAC according to different categories of respondents**

University professors and assistants																				
	MNE					SER					BaH					MK				
	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5
	2.6	4.3	4.2	3.9	4.0	2.3	4.3	4.1	4.4	3.9	2.1	4.3	4.0	4.0	4.3	1.6	4.0	4.4	4.6	4.3
b <sub>0</sub>	2.605					4.385					1.955					2.235				
b <sub>1</sub>	-0.245					-0.313					-0.017					-0.171				
b <sub>2</sub>	0.368					-0.131					0.025					0.227				
b <sub>3</sub>	-0.232					-0.218					-0.054					-0.055				
b <sub>4</sub>	0.093					0.260					0.083					-0.167				
$\overline{Y}_s$	2.550					2.300					2.125					1.575				
MA D	0.310					0.295					0.376					0.376				
MSE	0.171					0.121					0.245					0.181				
MAP E	12.36%					13.12%					21.34%					27.01%				
SE	0.442					0.373					0.529					0.454				
r	0.433					0.491					0.096					0.267				
r <sup>2</sup>	0.187					0.241					0.009					0.071				
Senior public officials																				
	MNE					SER					BaH					MAC				
	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5
	3.5	3.1	1.9	3.1	2.6	2.8	3.3	2.6	3.3	3.2	3.1	3.4	2.4	3.2	3.1	2.4	2.9	3.2	3.3	3.5
b <sub>0</sub>	3.872					3.964					2.461					-0.342				
b <sub>1</sub>	0.270					0.043					0.171					0.269				
b <sub>2</sub>	-0.031					-0.382					0.003					0.133				
b <sub>3</sub>	-0.265					-0.021					0.028					0.104				
b <sub>4</sub>	-0.131					-0.070					0.011					0.326				
$\overline{Y}_s$	3.513					2.838					3.163					2.438				

MA D	0.465					0.207					0.303					0.339				
MSE	0.318					0.068					0.144					0.169				
MAP E	13.75%					7.39%					9.90%					14.94%				
SE	0.603					0.280					0.406					0.439				
r	0.371					0.508					0.264					0.407				
r <sup>2</sup>	0.138					0.258					0.070					0.166				
Private sector entrepreneurs																				
	MNE					SER					BaH					MAK				
	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5	MV 1	MV 2	MV 3	MV 4	MV 5
	3.2	3.4	3.5	3.6	3.5	2.7	3.9	3.7	3.9	3.9	2.9	4.8	3.5	3.8	3.9	2.1	4.1	4.2	4.2	4.3
b <sub>0</sub>	3.662					1.018					2.209					3.437				
b <sub>1</sub>	-0.183					-0.180					-0.011					-0.148				
b <sub>2</sub>	-0.171					0.187					0.265					0.074				
b <sub>3</sub>	-0.453					0.314					-0.021					-0.268				
b <sub>4</sub>	0.675					0.106					-0.020					0.013				
$\overline{Y}_s$	3.188					2.650					2.925					2.063				
MA D	0.414					0.227					0.329					0.373				
MSE	0.275					0.082					0.187					0.219				
MAP E	13.91%					8.86%					11.87%					21.67%				
SE	0.561					0.307					0.462					0.500				
r	0.452					0.533					0.310					0.297				
r <sup>2</sup>	0.204					0.284					0.096					0.088				

Source: own

Comments in relation to the numerical values in Table 20, can be derived by analogy from the explanations afore given in Table 18 and Table 19.

In the observed post-socialist countries of SEE, neoliberalism has had in theory an apologetic function, and in practice ideological and interest (redistribution) function, which is linked to macroeconomic politics and parties in power. As far as the perception of citizens is concerned, our research has shown that neoliberalism is differently evaluated by various groups of respondents, apparently linked to their value criteria, which are conditioned by the nature of their engagement. Within institu-

tional violence individualism of the privileged, as a new form of dirigisme and totalitarianism prevails.

Using the multiple linear regression model, it has been shown in the paper that satisfying accuracy can be established through a linear functional dependence between dependent and independent variables. The results have shown that the average estimated level of economic development in all four considered SEE countries is ranged between 2-3, on the Likert scale of 1-5. The perception of negative impacts of independent variables on the level of economic development is relatively high and in most cases it is moving over 3 or 4. The perception of the level of economic development has proved to be the highest in Montenegro and the lowest in Macedonia, while at the second and third places are respectively BaH and Serbia, with a very small difference. The perceived level of economic development in all analyzed countries has been rated with the highest number by public officials, followed by private entrepreneurs, while university professors and assistants have rated the level of economic development with the lowest value. This can be explained by the fact that senior public officials enjoy the most benefits, private entrepreneurs are in a somewhat worse position, and university professors and assistants are currently in the worst position in the surveyed SEE countries.

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# SOCIO-CULTURAL CAPITAL AS A CAUSE OF ECONOMIC AND INSTITUTIONAL CRISIS IN SEE COUNTRIES

Milica Delibasic

*The subject of the article is to explain aspects and essential elements through which socio-cultural capital causes crisis effects (institutional, economic, and social) in the selected post-socialist countries of South-Eastern Europe – Montenegro (MNE), Serbia (SER), and Bosnia and Herzegovina (B&H). The aim of this paper is to: a) model the structure and the role of socio-cultural capital; b) draw attention to the negative impacts of path dependence and new neoliberal culture; and c) suggest a new methodological criterion for the division of integral components of socio-cultural capital (inherited and imposed factors), which affected its decline in those countries. Its starting hypothesis is that legacy factors (conditionally: path dependency) and imposed factors (external and internal origin) in the observed transition countries have caused an erosion of many socio-cultural contents, which has led to a slowdown in economic, institutional, and social growth. Besides common methods of social sciences, the survey method has been used. The survey results show that socio-cultural capital suffered a decline, mostly due to a stagnation of bridging social capital and an increase in linking social capital, that is, due to a greater impact of imposed factors (generated in the new neoliberal culture) than inherited factors.*

The inclusion of many structural components in the concept of socio-cultural capital has a major analytical and methodological meaning. Because all these components have a certain impact on the long-term reproduction of economic, institutional, and social crisis in the observed post-socialist transition countries (MNE, SER, and B&H), and on the erosion of socio-cultural capital (Draskovic, Draskovic and Bilan, 2017) and all its individual forms (human, intellectual, social, symbolic, and ecological).

In recent years, some Montenegrin authors have studied the similarity of manifesting the important economic phenomena and categories (and also socio-cultural

capital) in the SEE countries (Delibasic, 2016; Lakic and Draskovic, 2015; Draskovic et al., 2017). They have empirically and theoretically proved the great dependence and low level of socio-cultural capital (as dependent variable) of the two braking factors (the quasi-institutional monopoly of neoliberal type and the low rate of institutional change at all levels - as independent variables).

In this paper we have supplemented the number of independent variables (Figure 28) with: a) a great reduction in the level of education in the transition period, b) a dominant impact of alternative institutions, and c) an impact of other social factors.

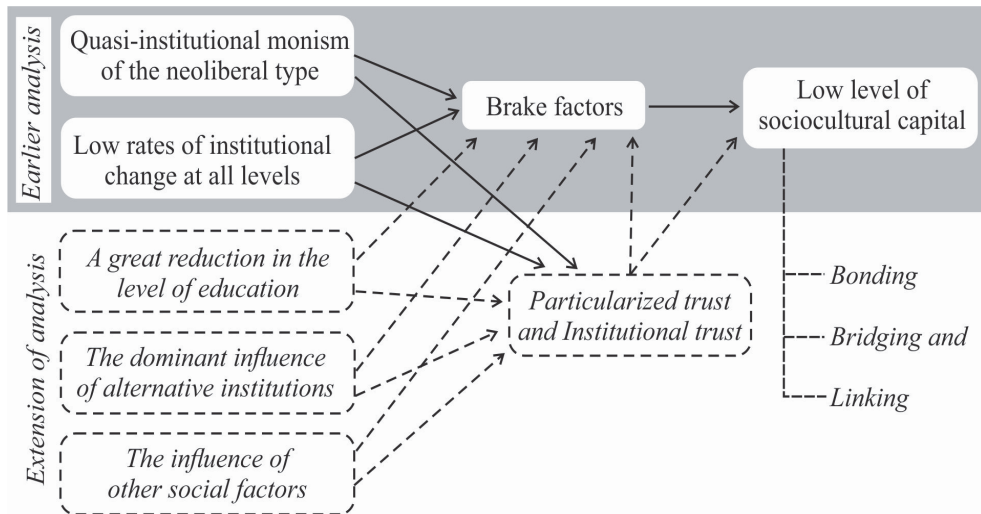


Figure 28. **Old and new approach to the research of socio-cultural capital in the MNE, SER, and B&H**

Source: own

In this article, survey was conducted according to different methodological criteria. Namely, all impact factors were simply divided into two basic groups: inherited and imposed. We opted for such a division because many impact factors (e.g. institutional), in various forms and ways of expression, have participated in both groups. This division allows to view the main impact factors in more detail and precise, and hence to better understand their real “*contribution*” to the dynamics of socio-cultural capital during three decades of post-socialist transition. In other words, this division allows to notice the following:

- drastic change in the dynamics of some inherited factors (e.g. the quality of higher education, social security, etc.) impacted by imposed factors,

- stagnation and prolonged action of some factors (e.g. the cult of personality, violence, etc.), and
- emergence of new impact factors (combat operations, alternative institutions, quasi-neoliberal ideology, deficit of the rule of law, etc.).

In the *inherited impact factors on socio-cultural capital*, we have included the most important: almost complete control by the privileged bureaucratic-party nomenclature (Delibasic, 2015), ruined socialist institutions (Jovovic, Draskovic and Jovovic, 2017), the cult of personality (Draskovic, 2018), quality education, relatively high level of culture and social cohesion, a high level of social security, etc.

In the *imposed impact factors on socio-cultural capital*, we have included: warfare, which caused forced migrations (see Appadurai, 1996, p. 10; Butnaru et al., 2018), globalization, geopolitics and geoeconomics, monistic quasi-neoliberal ideology and culture (Vranceanu and Iorgulescu, 2016), alternative institutions (Draskovic, Bauk and Delibasic, 2016; Draskovic, Bauk, Streimikiene and Draskovic 2017), an increase in opportunistic behavior, social pathology and violence (Draskovic, Popov and Peleckis, 2017), a collapse of education system, deficiency in the rule of law, and antagonism of social subsystems (political, economic, cultural, ethical, social, motivational, technological, etc.).

## Literature review

There are many approaches to studying socio-cultural capital. Some authors interpret it separately (as a cultural and social capital), and some interpret it as a whole. However, the fact is that all theoretical approaches indicate that social and cultural factors are considered the basis of institutional development, behavior of economic subjects and social growth. Thus, for example, T. Parsons (1977) has emphasized that “*the cultural subsystem creates norms, values, rules, statuses, and services that are institutionalized within a social system*”. Culture is realized in social processes and institutions, which include, among others, the institutions of domination and political power, through various forms of intangible capital, which can affect transfer into financial resources. P. Bourdieu (1972, p. 49) argues that cultural values are passed on to generations and widen the possibilities of social mobility of the people. In addition, he (1986) correctly noted that the accumulation and use of cultural capital depends on the adoption and use of certain social norms in everyday practice (traditional, modernist, innovative, etc.). Explaining the complex interactions between formal and informal constraints in everyday social practices, D. North (1990) has pointed to the great role of cultural heritage, which determines the sustainability of many informal constraints and, consequently, institutional changes.

In addition, it is about a “*characteristic relationship structure between actors*” (Coleman, 1988), a specific “*social glue*” (Paldam, 2000) and a phenomenon that

has a social nature (not an individual nature - Portes, 1998). Referring to the aforementioned opinions, the World Bank (1999) also emphasizes the structural component: “*Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society’s social interactions... Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together*”. It is characterized by synergy, or a set of networked contacts of people, held together by institutions and society (Figure 29).

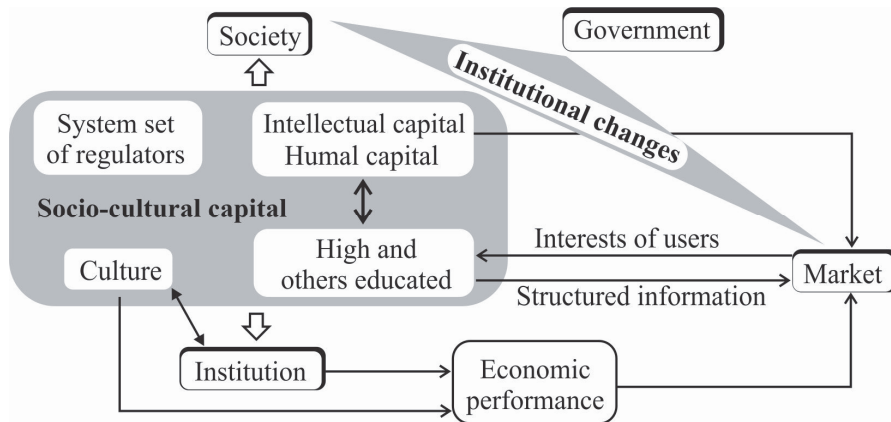


Figure 29. **Structure and role of socio-cultural capital**

Source: adapted from World Bank, 1999

P. Sorokin (1992, pp. 190-193) also considers that society, culture, and personality are an integral whole. Similar opinion is represented by B. Yernkyan, L. Gassner & A. Kara (2017). They support the attitude of D. North (1990, pp. 36-37) that informal institutions are “*a part of the heritage that we call culture*”, and they conclude: “*ability of two closely related phenomena, namely culture and institutions (especially the informal ones, such as codes of conduct, norms of behavior, and conventions), to impact economic performance*”. Furthermore, they correctly state that culture and institutions are closely linked towards the positive effects on economic performance.

G. Becker (1991), who defined the concept of human capital as a set of knowledge and skills (intellectual and creative potential), made a major contribution to the study of socio-cultural capital. He explained how people get them in the course of education at a certain cost, which in time can bring benefits to employees and their employers. In addition to knowledge and education, socio-cultural capital includes a systemic set of regulatory ways of integrating and identifying, developing, organizing, motivating, communicating, mobilizing, linking, etc. Those are abilities to organize and link the interests of individual and collective subjects in society. This also

includes (in addition to knowledge and investments in knowledge), the following intangible social resources: morality, ideology, culture, religion, the form of political regime, authority and trust in the government, historical continuity of institutional changes, social ties, etc.

D. Acemoglu et al. (2003) discuss the socio-cultural capital through the prism of social and economic growth. They consider it to be a set of informal institutions and social habits, which, under the influence of the existing government (reforms, political measures, privileges and priorities, etc.), can turn into developmental barriers or competitive advantages. Although politics always dominate the economy (to a greater or lesser extent), in a real life both of them absorb socio-cultural capital, that is, concrete ethical, cultural, and civilizational values. With it, a society establishes a certain order, which represents a social consensus, whose quality determines the level of organizational, economic, and institutional efficiency, as well as the path of development.

All these theoretical considerations indicate a complex and multidimensional *resource* category (in general observation of capital as an asset in function), in which many complicated relationships between participants of social actions (interactions) are converted, and which are generally responsible, reliable, and confidential. In other words, it is a logical construct (synthesis), because in a real life it culturally and socially acts as complementary phenomena (of reality), having similar directions of influence and principles in society, which are difficult to distinguish.

Without the desire to explain terminological differences that exist in literature, socio-cultural capital is generally regarded as a *synergistic resource*, composed of values, perceptions, preferences, and real lives of people, observed in individual and group behavior. It is implemented through social networks, social norms of behavior of certain groups, mutual support and cooperation, whose goal is the realization of mutual benefits, which can be expressed as profit or optimization of social positions. Hence, always must be borne in mind that socio-cultural capital is a mediator in the system of mutual social activities, because it, like all other institutions, represents and conditions these facts (North, 1990, p. 17, Hodgson, 2007).

### **Negative impacts of path dependence and new neoliberal culture**

Certain negative socialist (previous) experiences of motivating people have not been eliminated. On the contrary, economic reductionism has generated new problems that have been generated in the fields of employment, general and higher education, social consensus and security, mentality and, in particular, alternative institutions. The latter have strengthened and constantly slowed down or even blocked institutional changes. Regarding the attitude towards the people, the new authorities turned out to be very similar to the former authorities, in a political sense. Political

power and the cult of personality have continued to dominate society, thus limiting freedom of choice and freedom in general.

Inherited socialist institutions (legal, organizational, economic, and political) have not been transformed in accordance with the needs of the proclaimed market economy as a monistic institution. Under the influence of a retrograde neoliberal doctrine (and its quasi-institutional manifestation in practice), there has been a recombination of inherited institutions with newly formed experimental institutions. A new “neoliberal” (market) culture has been created. F. Fukuyama (1992) wrongly and paradoxically concluded that the beginning of this new culture meant “*the end of history*.” It was completely contrary to the previous Christian culture.

It has resulted in devastating consequences, because instead of some market segments (not to mention an illusion of integral market) dominated by substitutes and imitations of the market. There was a sharp decline in production, employment, living standard, and all economic indicators, as well as the impoverishment and stratification of the people. All this has caused the erosion of institutional component of socio-cultural capital, which implies an *accumulated trust*. It is the product of moral norms and values in society. Thereby, we do not think that the level of trust in a particular society corresponds to the results of political elections (due to manipulation, voter turnout, etc.). On the contrary. Clearly, the paradox of distrust among the people towards the ones in power significantly and negatively affects the quality of socio-cultural capital and the efficient institutional functioning. In addition, a dangerous phenomenon of growing *alienation* from the power and the people has also been activated, having negative impact on the quality of socio-cultural capital.

Most authors in the socio-cultural capital structure consider the presence of *privileges* (more or less), which significantly determine and degenerate its quality. These privileges are the result of a certain power nomenclature ideology. In the case of MNE, SER, and B&H, there is a dominant influence of *neoliberal ideology*, which was based on the society westernization, interests and consumerism of non-market enriched elites, non-market privileges, negative selection of personnel, etc. Bearing in mind that privileges directly affect the reduction of *social motivation*, it becomes clear how socio-cultural capital has been degraded under the influence of these factors. Its degradation had a reverse negative impact and contributed to the blockade of the institutional development and other changes.

Using economic terminology, every analysis of real social and economic reality in MNE, SER and B&H considers the existence of many socio-pathological phenomena and opportunistic behavior, which significantly increase transaction costs in the economy and society, reducing economic choices and disabling the creation of optimal conditions for economic growth and economic development. In this sense, the research of socio-cultural capital becomes the major carrier (source), and therefore the cause of the stated negativity.

However, the new neoliberal culture has suffered a serious blow from the broad scientific public. Neoclassical and neoinstitutional methodological individualism,



however, have significantly turned towards respecting culture and constructivist paradigms in the last decade. It has been increasingly insisted on logic of communicative actions, in which valuable and rational entities equally participate, exchanging ideas and forming a shared knowledge, which is a part of institutions generally, and socio-cultural capital particularly. The cognitive-cultural turning towards knowledge as the only unlimited resource strongly influences the further development of non-institutional theories, and the significance of socio-cultural capital and institutional structures that surround it are seen in the new light. Will it and to what extent affect the bearers of neoliberal state and economic politics and culture in MNE, SER and B&H to finally give the necessary priority to knowledge and institutional pluralism - remains to be seen.

### **Degradation of higher education**

Only the person can create - this elementary fact is often neglected. It points to the priority role of socio-cultural capital in the development of every society. The influence of socio-cultural factors qualitatively determines the level of institutional and economic development. All human activities are part of the overall social system. The concept of socio-cultural capital implicitly contains the category (institution) of the *education* system, from pre-school to high education. It significantly impacts the personality socialization in society and contributes to build socio-cultural capital through the accumulation of various types of knowledge, habits, and skills.

Higher education (universities, colleges, institutions, etc.) aims at creating, transferring, and increasing intellectual and human capital (Radjenovic, 2018), which the staff will use in employing in various companies. It is a primary producer of higher education and scientific research. Therefore, it has enormous significance for the cultural, social, and economic development of each state. In MNE, SER, and B&H, and in the whole region, theoretical and practical research of this issue and the higher education development impact on the forms of knowledge management and development of socio-cultural capital are not sufficiently represented.

Every transition economy (including the considered) in their aspirations to innovate must accept the imperative need for professionals of various profiles, providing efficiency of their training and retraining in order to increase the general level of knowledge and specialty. Because, they primarily depend on the quality of higher education. Individual benefits from education in general have contributed to the rapid increase in the number of participants in education systems in countries with different levels of development in the 20th century. Research on individual education benefits has led to an understanding of its significance in general, and particularly from the aspect of the market entity costs for education as an investment and socio-cultural capital as an institution. Using econometric analysis, experts have shown

that the presence of primary education and vocational education in underdeveloped countries increases individuals' incomes by 10-40%. In addition, education also represents a general economic benefit for society, which is much larger than the accumulation of individual benefits. This synergy effect is achieved thanks to the fact that education creates a rich base for innovation and scientific discoveries, which in the future lead to an accelerated pace of economic growth.

Higher education in modern conditions stands as the leading field, which ensures competitive abilities and advantages of the company, because it directly affects the creation of human and intellectual capital, organizational capital, and the competence of personnel (intellectual workers). A strong academic community creates a positive and proactive climate that attracts domestic and foreign investments. H. Jonson (1974) defined three basic university functions: public good (conditional: socio-cultural capital), research activity, and youth training. D. Bear (1974) analyzes higher education as a company that produces different products, primarily human capital. According to De Grof et al. (1998), the university performs four basic functions: teaching and scientific research, expansion of academic and scientific knowledge, education and research at a high level, and providing expert and specialized services to the wider community (governments and/or the private sector, including the labor market).

In a modern knowledge economy, the creation of knowledge depends on the synergy between academic community, business community, and the government. Each actor must be connected with a certain segment of economy: universities are responsible for creating innovations, companies create a new value, and the government manages interactions (transactions) between actors, preserves social goods and rules (Leydesdorff, 2006). Some authors, such as H. Etzkowitz (2002, p. 16), distinguish two extreme models for the configuration of the mentioned dynamic links: the statist model and the laissez-faire model (conditionally: neoliberal).

It is symptomatic that during the visit of considered countries, Nobel laureate E. Maskin (2017) received a reliable information from the official about the great decline in quality in their higher education (expressed through a very low investments in science - 0.1-0.3% GDP, a relatively small number of scientific references, inflation of diplomas that are not covered by appropriate knowledge, and increased number of plagiarism), in which improvisation replaces creativity. And then he said: *"If you want better results, invest in education."*

### **Results of the survey on the impact of certain groups on socio-cultural capital**

We conducted a survey on a sample of 300 respondents in each of the observed countries in order to determine the perception on the impact of individual social re-

lations on the quality of socio-cultural capital. Respondents had a simple task to answer three questions:

- Did socio-cultural capital in the post-socialist transition decrease, stagnate or increase?
- Have the listed socio-cultural capitals (bonding, bridging, and linking) in the post-socialist transition decreased, stagnated or increased? and
- Which form of socio-capital in the transition period had the greatest impact on the dynamics of socio-cultural capital?

In the survey, the respondents were acquainted with the essence of the aforementioned forms of socio-cultural capital in the following way (according to Putnam 1995; Woolcock, 2001):

- *Bridging* social capital refers to particularized trust and communicative solidarity within the family and/or friendship. It implies the unconditional trust and support due to kinship, i.e. close relationship. It has the function to ensure developing new ideas, values and perspectives (we assume that this can be accomplished only in conditions of democracy).
- *Bonding* social capital refers to generalized trust and normative/mechanical solidarity with the same-minded associates and members of various interest clubs and parties. It has the function of contributing to social adaptation and raising the awareness of social actors (we assume that this can best be achieved under the conditions of belonging to the largest parties or party coalitions).
- *Linking* social capital refers to institutionalized trust and structural/organic solidarity, which is generated in vertical social relationships with privileged persons in government, professional elites, administration, etc. It has the function to provide individual status guarantees (we assume that this can only be achieved through active roles in the exercise of power and administration, that is, lobbying and log-rolling elites and the nomenclature of power).

Table 20. **Respondent's answer to the first question**

Offered answer	Mne	Srb	B&G
decline	205 / 68,33%	243 / 81%	192 / 64%
stagnation	64 / 21,33%	33 / 11%	71 / 23,66%
growth	31 / 10,33%	24 / 8%	37 / 12,33

Table 21. Respondent's answer to the second question

Offered answer	Mne	Srb	B&G
<i>Bridging</i>			
decline	29 / 9,66	13 / 43,33%	42 / 14%
stagnation	213 / 71%	254 / 84,66%	220 / 73,33%
growth	58 / 19,33%	33 / 11%	38 / 12,66%
<i>Bonding</i>			
decline	120 / 40%	107 / 35,66%	111 / 37%
stagnation	32 / 10,66%	61 / 20,33%	92 / 30,66%
growth	148 / 49,33%	132 / 44%	97 / 32,33%
<i>Linking</i>			
decline	49 / 16,33%	65 / 21,66%	32 / 10,66%
stagnation	53 / 17,66%	48 / 16%	63 / 21%
growth	198 / 66%	187 / 62,33%	205 / 68,33%

Table 22. Respondent's answer to the third question

Offered answer	Mne	Srb	B&G
Bridging	26 / 8,66%	25 / 8,33%	32 / 10,66%
Bonding	63 / 21%	76 / 25,33%	80 / 26,66%
Linking	211 / 70,33%	197 / 65,66%	188 / 62,66%

### Results of the survey on the impact of inherited and imposed factors

In the second (special) survey, the respondents were provided with an orientation list of respective impact factors (Table 23) as an explanation of the methodological division to inherited and imposed factors.

**Table 23. Inherited and imposed impact factors on socio-cultural capital**

<i>Inherited impact factors on socio-cultural capital</i>	<i>Imposed impact factors on socio-cultural capital</i>
<ul style="list-style-type: none"> <li>— almost total control by privileged</li> <li>— bureaucratic-party nomenclature,</li> <li>— ruined socialist institutions,</li> <li>— cult of personality,</li> <li>— intransigence of authorities,</li> <li>— quality of higher education,</li> <li>— relatively high level of cultural and social</li> <li>— cohesion,</li> <li>— violence,</li> <li>— high level of social security,</li> <li>— historical memory,</li> <li>— - recombination of political elites and other</li> </ul>	<ul style="list-style-type: none"> <li>— combat operations,</li> <li>— forced migration,</li> <li>— globalization, geopolitics and geoeconomics,</li> <li>— monistic quasi-neoliberal ideology and</li> <li>— culture,</li> <li>— alternative institutions,</li> <li>— an increase in opportunistic behavior,</li> <li>— social pathology,</li> <li>— violence,</li> <li>— collapse of the higher education system,</li> <li>— deficit of the rule of law,</li> <li>— - antagonism of social subsystems and other</li> </ul>

**Table 24. Respondent's answers to the question about the dominant impact of inherited and imposed factors on the dynamics of socio-cultural capital**

Offered answer	Mne	Srb	B&G
Inherited factors	43 / 14 /34%	58 / 19,34%	65 / 21, 67%
Imminent factors	257 / 85,66%	242 / 80,66%	235 / 78,33%

Due to the limited space, in this paper we used only the respondent's answers to one of the given questions: In your opinion (perception), which impact on the dynamics of socio-cultural capital is greater: inherited or imposed? Answers to other questions will be analyzed in one of the following articles. The results of the second survey on a sample of 300 respondents in each of the observed countries are shown in Table 24.

Regardless of the deficit of the questions asked (in the first survey), which should include and explain the reasons for the existence of certain phenomena that the respondents perceived, the obtained results suggest the following conclusions:

- Respondents in all observed countries have assessed in a large percentage (sufficiently homogeneous) that socio-cultural capital decreased (64-81%), in a

small percentage that it stagnated (11-23.66%) and in a negligible percentage that it increased (8-12.33%).

- Respondents in all observed countries have correctly assessed the role and significance of bridging social capital as the dominantly stagnant phenomenon (71-84.66%). One can only guess why it failed to achieve its basic function, which, in our opinion, is due to an increase in socio-pathological and opportunistic behavior, quasi-neoliberal economic policy and culture, and strong alternative institutions.
- Respondents have differently assessed the impact of bonding social capital, which prevented a valid scientific conclusion. It can only be assumed whether and to what extent their responses may have been motivated by political and/or national affiliation. Bearing in mind that during the transition period, the majority of the population in the observed countries had existential problems, as their living standards dropped drastically, it can be concluded with great insurance that many respondents have based their perception on the aspect of the offered bonding function. In this sense, some have probably opted for the necessary implementation of a social adaptation to crisis conditions (survival), which leads to the growth of bonding capital, and some to the reduced awareness (for example, benefits of belonging to particular political parties), which leads to a reduction in bonding capital.
- Respondents have in the great majority (62.33-68.33%) estimated that there was an increase in linking social capital, starting primarily from its offered function in the survey. These assessments indicate that most respondents (knowingly or unknowingly, regardless of their participation in the use of privileges) have assessed (recognized) the growing importance of structural/organic solidarity. Consequently, it indirectly recognizes the responsibility of its growth for the decline in socio-cultural capital. It may seem paradoxical, but the survey have objectively confirmed it.
- The previous conclusion was verified by respondent's answers to the third question, which generated the dominant impact of linking capital on the dynamics of socio-cultural capital. Respondent's answers to the third question in a large percentage (over 80%) correspond with the answers to the second question on the realized dynamics of linking capital. Therefore, this may be the most significant result of the survey conducted.

Despite selecting the answer to only one question in the second survey, it is significant that respondents have dominantly (78.33-85.66%) answered that they perceive the greater impact of imposed factors in comparison to inherited factors on the dynamics of socio-cultural capital. This points to the significant imposition of a new culture (neoliberal) and the appropriate forms of people's behavior in society. A more detailed analysis goes beyond the scope of this article.

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# THE POST-SOCIALIST TRANSITION THROUGH THE PRISM OF O. WILLIAMSON'S INSIGHT

Milica Delibasic

*The choice and combination of various forms and mechanisms of economy regulation is the most important, the most complex and the most controversial issue in the post-socialist countries. It results from the problems of wider social regulation (political, institutional, social, moral, cultural, etc.) i.e. from development level of the social capital. Apart from developed countries, dominated by institutional pluralism, many post-socialist countries have opted for neoliberal economic policy, which by definition prefers institutional monism. Therefore, from this aspect, it is interesting to phenomenologically analyze the post-socialist transition seen through the prism of certain arguments of Nobel laureate, O. Williamson. Ignoring the practical differences of the post-socialist neoliberalism (as a quasi-institutional monism) from theoretical neoliberal monistic model, this paper put forward the hypothesis that theoretical understanding of Nobel laureate O. Williamson is on the background of the needs of institutional pluralism, control of opportunistic behavior and cutting transaction costs. This means that they could have (but did not) served the transition reformers in creating the post-socialist economic environment.*

Conceptual progress of O. Williamson's New Institutional Economics (NIE) is reflected in analyzing the theory of enterprise as a structural governance, rather than a simple manufacturing function. In his new concept, he explores the problems of existence and reduction of transaction costs in the explicit context of the vertical boundaries of the enterprise, where opportunism is a major threat. Therefore, the task of Transaction Cost Economics (TCE) is to propose adequate management mechanisms, including vertical integration, which provides a greater degree of control over transactional environment and expands as long as it is economically rational to organize the sets of additional internal transactions before market exchange. TCE is based on the following assumptions: a) transactions are performed under conditions of bounded rationality; b) subjects involved in the transaction do not have symmetric

information, and they operate under uncertain conditions; and c) at least one of the subjects behaves as an opportunist (i.e. tries to deceive other subjects whenever it is profitable).

Williamson shows that TCE can act as a control mechanism over transactional environment only in situations where competitive market is not operating. The market is not competitive when enterprise invests assets as a support to specific set of transactions, and when in such situation an enterprise is under the influence of opportunistic actions by the third party. When invested assets are specific for that set of transactions, the enterprise faces the threat of opportunistic behavior of other party, which tries to negotiate better terms of the agreement. This hazard occurs because the investments that support a set of transactions actually narrows the field of possible alternatives. This problem Williamson considers to be a fundamental transformation that increases the cost of using the market mechanisms.

Uncertainty, risk and opportunism may cause market failures, which increase transaction costs. Therefore, an enterprise stops relying on market-based solutions and begins integrating its functions. A high frequency of transactions, a greater degree of uncertainty and greater specificity of assets (capital, knowledge, and skills that in addition to economic also bring so-called quasi-rents) increase the possibility of corporate decisions to vertically integrate. Otherwise, if the market activity result shows allocative efficiency, the enterprise will not benefit from the internalization of certain functions, and it will not opt for vertical integration.

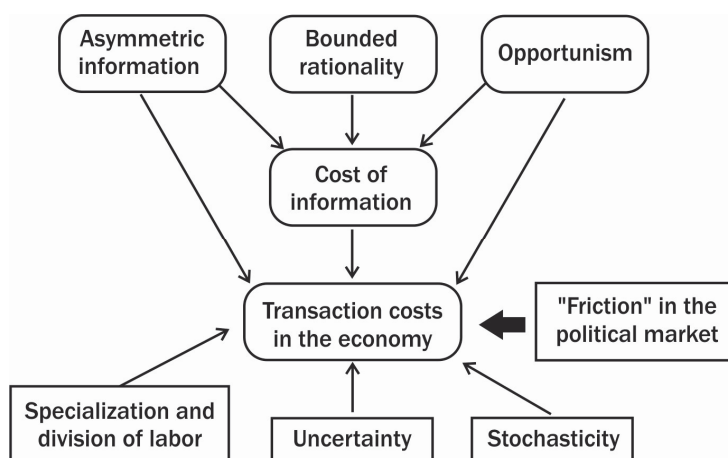


Figure 30. Sources of “friction” in the economic system

Source: Author’s adaptation

Since enterprise operates in environment full of constraints (resource, human, bureaucratic, institutional and other), Williamson proposes the use of non-standard

contracts and alliances. The main goal is development of long-term and strategic relationships between suppliers and customers. He believes that this is the way company economizes, i.e. minimizes transaction costs, to which it is exposed to a greater or lesser extent. Thus, a fundamental transformation leads to a bilateral interdependence in the contract implementation, but also in the process of their reconstruction: in transactions, exchange partners build business and social interdependence, which shape their behavior. Vertical integration and mega-corporations are institutional personification of the profits.

In addition to other interpretations of the entrepreneurial function, O. Williamson has, within the NIE, interpreted an entrepreneur as a subject that makes selection between agreed market relationships and organized enterprise in order to minimize transaction costs. In this way, entrepreneurship may get interpreted, in institutional terms, as a separate and alternative regulatory mechanism, which is different from the price mechanism and state regulation. He explained that economic transactions are more efficient within a firm than between two firms, due to lower transaction costs, which increases the competitiveness. Based on a comparative analysis of the firm efficiency with different types of management structures, he came to the conclusion that the hierarchy is preferred because of unique intrafirm management as a special form of command economy, reducing transaction costs, as well as smaller and simpler strategic implications for adaptation of specific assets (investments) and minimizing opportunism. Therefore, Williamson could be considered to be an economic researcher of non-market economy.

Williamson has (1981) observed the institutions as regulators and coordinators of behavior of economic agents, which increase the efficiency of transactions and thus reduce transaction costs through coordination of economic activities, and that is enabled by harmonization of interests between economic subjects (horizontally) or based on a property relations (vertically).

## **Theoretical Approach**

Many authors understand institutionalism as a “rebellion” against neoclassical formalism and abstraction, i.e. as an effort in the economic theory to reflect not only the formal abstract model and rigorous logical scheme, but real life and its diversity. After almost unnoticed achievements of the old institutionalism, since the 1970s has begun a fast and productive development in two directions: neoinstitutional and new institutional economics. Regardless of an apparent identity of the name, there are various approaches to the analysis of institutions. What they do have in common, in our opinion, is the multidisciplinary character of institutional analysis, and the fact that they have, as representatives of the Neo and New institutional economics, preserved the essence (core) of neoclassical economics, but significantly corrected, adapted and improved its protective shield. They tried to explain the factors that

appear for the neoclassics as external: politics, ideology, norms of behavior, family law, crime, social selection, contracts, etc.. They have changed protection shield with considering a broader range of property types (private, public, collective and mixed), they have introduced the concept of information costs, proving the existence of transaction costs parallelly with production costs, etc.

The term was not introduced by O. Williamson (1975, p. 1) in economic theory. It was later adopted by many authors (D. North, R. Coase, Alchian A., E. Furubotn, H. Demsetz et al.), who have indicated the deterministic importance of institutions and institutional structure for economic behavior. In an early stage of his research, O. Williamson (Ibid) has emphasized the complementarity of NIE with neoclassical theory: *“The new institutional economists both draw on microtheory and, for the most part, in regard to what they are doing as complementary to, rather than substitute for, conventional analysis.”* However, we believe that, in his later creative oeuvre he mostly did not rely on the neoclassical theory.

Although Williamson (1975, p. 4), Coase (1984, p. 231) and North (1995, p. 18) have accepted the principle of the *man as being boundedly rational*, they have never completely abandoned the neoclassical theory and attitude that NIE represents only *“extended neoclassical theory.”* In this sense, the opinion of D. North's (1995, p. 17) is indicative: *“The new institutional economics is an attempt to incorporate a theory of institutions into economics. However, in contrast to the many earlier attempts to overturn or replace neoclassical theory, the NIE builds on, modifies and extends neoclassical theory ... What it abandons is instrumental rationality - the assumption of neoclassical economics that has made it an institutional theory-free.”*

However, we believe that North has indirectly distanced himself from institutional monism, because:

- it supports the view of H. Simon on bounded rationality, because *“information is incomplete and there is a limited mental capacity by which to process information”*, and
- *“ideas and ideology play a major role in decision making and transaction cost results in imperfect markets”* (Ibid., p. 19).

But it should be noted that in many research segments North distanced himself from the neoclassics, primarily advocating better specified property rights, regulatory, stimulating and limiting role of institutions, their interaction with technology, the role of transaction costs in relativization of neoclassical results of efficient (perfect and balanced) markets, accepting the dynamics of institutional and other changes, uncertainty, violence as anti-institutional behavior that significantly reduces the rationality and stability of the system and so on. By marking ideology as the cause of inefficient institutions, he pointed to the contradiction between the problems of collective action and opportunism of the dominant group. Therefore, he indirectly accepted Olson's argument that within neoclassical approach there is an inconsistency between the rational self-interest and group activities.

Williamson (Ibid.) have pointed out that general terms of the NIE include many *”aspects of mainline microtheory, economic history, the economics of property rights, comparative systems, labor economics, and industrial organization”*, whose research have illuminated the various economic problems through the prism of “transaction” as a key concept. E. Furubotn and R. Richter (1984, p. 3) have stated that basis of the NIE consists of three main directions: Property Rights Economics, Institutional Evolution and Constitutional Choice. According to Nabli and Nugent (1989, p. 10), the NIE includes two salient general approaches: transaction and information costs (including transaction cost economics, property rights approach, and contract theory - for private goods), and theory of collective action - for public goods.

Distancing from the neoclassical research, Williamson has focused on the issue of bounded rationality, where opportunistic behavior is influenced by an economic organization. Later, (1985, p. 16) he has introduced transaction cost economics (TCE) as a *2part of new institutional economics*<sup>2</sup>. He has proposed a hypothetical methodological scheme with three interdependent levels (Figure 31), where transactions are implemented.

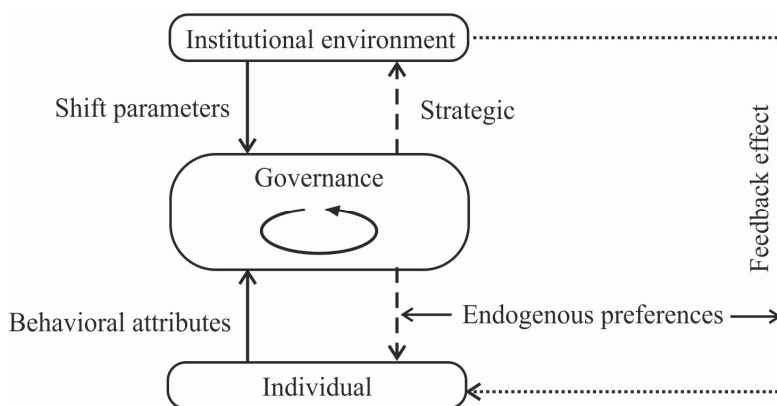


Figure 31. **Levels of transactions implementation**

Source: Williamson 1995, p. 175.

Figure 31. illustrates interaction between the institutional environment<sup>5</sup>, management structures and individuals in terms of transaction cost theory. These actions are calculated during the implementation of transactions (conditionally: business). The bold diagram arrows correspond to the basic (primary) i.e. the main effects of

<sup>5</sup> “The institutional environment is the set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange and distribution. Rules governing elections, property rights, and the right of contract are examples” (Williamson 1995, p. 174)

reciprocal actions, while dashed arrows correspond to feedback effects. Diagram shows that both effects arrows intersect in the field of management structures. In the methodological context, that exactly corresponds to the regulatory function of institutions, which aligns behavioral attributes of change parameters in the environment.

Aforesaid Williamson's concept can be hypothetically presented in Figure 32, which shows the interaction and relationship between individuals (*first level*) and institutions of various types: those that represent institutional arrangements (*second level*) and those that are integral parts of the institutional environment (*third level*). Institutional arrangements are voluntarily established rules of exchange between economic subjects, rules of market operations, rules of reciprocal effects between organizations (hierarchical structure) and various hybrid forms of institutional arrangements, which contain signs of the market (contractual) and hierarchical relations.

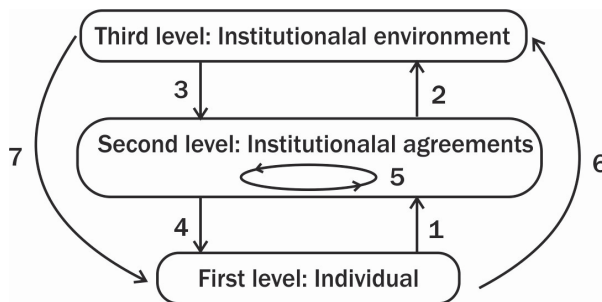


Figure 32. **The interaction of individuals and institutions**

Source: Williamson 1985, s. 31.

Figure 32 shows seven types of mutual effects:

- the impact of individuals on the institutional arrangements (agreements),
- the impact of institutional arrangements on the institutional environment,
- the impact of the institutional environment on the institutional arrangements,
- the impact of institutional arrangements on individuals,
- the impact of institutional arrangements on each other,
- the impact of individuals on the institutional environment, and
- the impact of institutional environment on individuals.

K. Menard (2007, p. 142) in the article “*Transaction cost economics: the Cost theory to empirical research*”, has presented a hypothetical framework of analysis, reduced to transaction costs. However, essential for our study are two basic assumptions of economic behavior: limited (institutional) rationality and opportunistic behavior (Figure 33). This behavior stems from the transactional economy environment, which in the most general sense is made of the ratio: market, characteristics of

goods and services, and the rule of law. Figure 4 essentially reflects Williamson's insight.

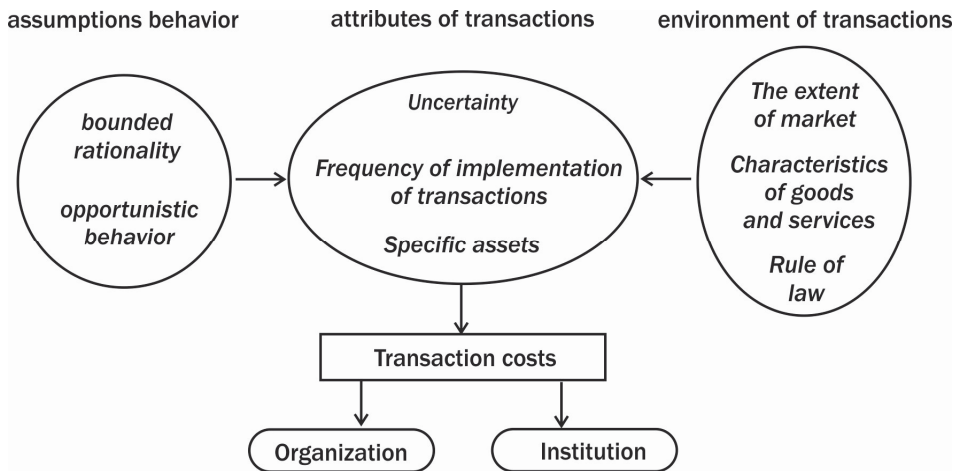


Figure 33. **Framework of the Williamson institutional analysis**

Source: Menard, 2007, p. 142.

### **Acknowledgements to O. Williamson**

Williamson differs hierarchy of the firm, starting from the horizontal market relations, where sometimes occurs market fiasco due to the opportunistic behavior of market participants, who follow their own interests. While not denying the crucial role of the contract, he generalizes and systematizes organizational forms of firms into hierarchies, markets and hybrids as combinations of contractual relations (market) and administrative “power” (command and control, hierarchy). The firm appears as “stabilizing structure” that helps to overcome the problems of uncertainty, numerous in the environment. Aforesaid interpretation gives contractual character to the economic relations, in which individuals pursue their own interests, and that is consistent with their egoistic nature. The firm is seen as an instrument of the economy for searching the information, specification of the property rights, concluding the contract etc.

Since the contracts are inevitably incomplete, the stability of hybrid forms requires certain mechanisms that are designed to coordinate activities, organize transactions and dispute resolution. The foundation of the hybrid architecture is special way of internal control, which Menard calls authorities, emphasizing their difference from the “*hierarchy*”. These power relations combine autonomy with transferring a

number of appellate decisions, especially the legal subjects, which are responsible for coordinating their activities.

Williamson has identified three main types of contracts: classical, neoclassical and relational (referring to the highly specific long-term transactions, where critical importance is character of the partner, because it is impossible to find equivalent of exchange in the market). Relationship becomes long, informal discussion to gain an advantage over formal obligations. Each type of contract corresponds to a separate regulatory framework, i.e. organizational mechanism for evaluating the participant's behavior. Classical contract regulates the market, neoclassical contract regulates the arbitration, relational contract regulates two-sided informal negotiation within firm as a unitary regulatory structure, where decisions are unilaterally made by management body.

Significant are Williamson's conclusions that the firm provides secure protection of specific resources from the market extortion and allows owners to quickly adapt to unforeseen changes, so the profit is achieved at the cost of weakening stimulation and boundaries of the firm depend on the balance between profitability from better protection and adaptability of specific assets on one hand, and loss of stimulation, on the other.

Williamson sees the institutional structure as a mutually arranged set of institutions (formal and informal), that forms the matrix of social and economic behavior and determine the limits of social and economic subjects. They consist of the basic political, social and legal norms, which are common for economic activities. Essential function of institutional structures is to ensure order in society and to reduce the uncertainty in the relationship between people and organization.

O. Williamson (1993, p. 115) considers the opportunistic behavior as a central category of transactional economic theory, explaining the formation of the firm as a hierarchical structure. Since the turbulent environment is not suitable for neutralizing the uncertainty and risk, there are real possibilities to express the opportunistic behavior as a means of economic agents acting in accordance with their own interests, which does not take into account the moral norms, nor contradict the interests of other agents. It is believed that the direct basis of opportunistic behavior is the asymmetry of information, resulting from the uncertainty. It represents uneven distribution of information, necessary for concluding the agreement between potential partners. Since the economic processes are implemented in real time, it is important to distinguish two basic types of opportunistic behavior: *before contracting* (which may consist of concealing the necessary information, or so-called "*harmful choice*" or *adverse selection*) and *after contracting* - a typical example is so-called "avoidance" or *shirking*, which manifests through violation of the contract, including strategic manipulation of information (Eggertsson, 1991, p. 115), as well as the corresponding the lack of positive effects of the contract. Avoiding obligations legally occurs as a consequence of inability to specify all obligations between the contracting parties, i.e. due to the phenomenon of incomplete contract.



Management is one of the constitutive elements of the firm. The management structure consists of three elements: bounded rationality, opportunistic behavior and specific resources. In this context, the firm can be defined as the management structure destined for the regulation of mutual relations between economic agents in terms of bounded rationality, opportunistic behavior and specificity of the used resources. Bounded rationality is characteristic of human behavior under conditions of uncertainty, assuming an inability to predict all possible accidents, and to determine optimal direction of behavior. It is basically an incompleteness of contract. Specific resource is the resource whose alternative usage costs are less than the income from the most efficient usage. O. Williamson (1985, p. 31) has proposed Table 25, showing how the dominant form of contractual relationship depends on the absence of any of the three management elements.

**Table 25. Attributes of the Contracting Process (dominant forms of contractual relationships depend on the absence of one of the three management elements)**

<i>Behavioral Assumption</i>		<i>Asset Specificity</i>	<i>Implied Contracting Process</i>
<i>Bounded Rationality</i>	<i>Opportunism</i>		
0	+	+	Planning
+	0	+	Promise
+	+	0	Competition
+	+	+	Governance

Source: Williamson, 1985, p. 31.

Under conditions of extreme uncertainty (bounded rationality), if there is no opportunistic behavior, contractual relations are achieved through the formulation of promise. Regardless of whether the contract provides realization in any case, the parties will act in accordance with the given promises (as pre-accepted obligations). If planning is possible in a relatively simple real conditions (characterized by stability, a small number of external connections, appropriate level of competence of the parties and the like), then the implementation of contractual relations is possible for the personified relations, in which the key importance is trust or reputation. Opportunistic behavior is not desirable for all economic agents no matter which part of the specific resources income can be appropriated to their advantage. In the case of radical uncertainty and opportunity as a representative of economic disparity (or

even conflict among them), the possibility of strategic manipulation of information is reduced to competition.

Only in the case when parallelly with opportunistic behavior (caused not only by contradictions in economic interests, but also by extreme uncertainty) specific resources are used. There is a need for implementing such a contractual relationship, which provides insurance and, consequently, reduces the risk of losing part of or the whole so-called quasi-rent, obtained by using specific resources. Quasi-rent is a difference of income that is derived from resources exceeding the best of missed alternatives. Above mentioned contractual relationship, Williamson calls management.

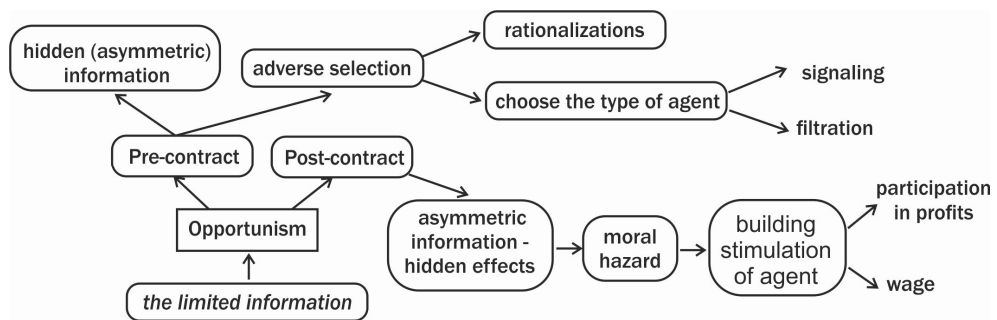


Figure 34: **Conditional scheme of adjusting the stimulation agent when contracting**

Source: Author's adaptation

Decision on concluding the contract is a standard case of discrete choice. Williamson proposes that two sides are involved because they expect that their benefits from the contract will be greater than the benefits that would be achieved from the same transaction in some other way. In literature, the main reasons for concluding the contract are the risk shifting (insurance) and achieving the stimulation. Difficulties associated with asymmetric information are studied using a model of principal-agent, when action of one person affect the action of other person, and this is a classic contractual relation between two sides. In theory of stimulation, focus is on several types of behavior (figure 34).

Representatives of the theory of optimal contracts are focused on stimulating the agents in order to limit their opportunistic behavior. The most common solutions are: competition among agents, agents participating in the implementation of joint activities and the firm as a coalition of agents (increasing the trust among them). O. Williamson thinks that various contract forms are regulated by various mechanisms: simple contracts with the impersonal and short-term relations are regulated by the market, disputes are resolved in court, and complex (relational) contracts regulates

hierarchy, characterized by personal and long term relationships in which disputes are resolved through informal negotiations.

Access to contracts by the theory of transaction costs is much closer to reality and simpler, because it allows clear and empirical review of many assumptions regarding the wide range of transaction costs. In this approach there is no rigorous models of optimal contract. But there is a significant problem of ignoring the institutional environment as an important source of transaction costs. Basic assumption of this theory is that contracts always contain inaccuracies and other imperfections, which is why they can be partially realized. Therefore the need to manage the contractual relations after the concluding the contract. The main concept of this theory is that the basic function of contracts or organizations to save on the size of transaction costs and production costs.

O. Williamson (2000) has offered a classification of economic institutions, based on different hierarchical levels (figure 35), which are not mutually exclusive but are interrelated. A higher level imposes restrictions on lower level. Inversely, it provides the feedback from lower to higher level. In Figure 6, he (Ibid.) specifies the three-level setup where L1 is the embeddedness level where the informal rules (which change very slowly) are located, L2 is the institutional environment where the formal rules (especially the policy and judiciary) change gradually and L3 is the governance level, which is the name of the game where transaction cost economizing realignments are made more frequently.

In the article “Behavioral Assumptions” O. Williamson (1985, p. 44) has pointed out that many economists believe that the adoption of certain behavioral assumptions facilitates economic analysis and explains the nature of economic rationality. He distinguishes three forms of rationality:

- *strong form*, which involves maximizing
- *semi-strong form*, which implies limited rationality, and
- *weak form* of rationality or organic, which is used in the evolutionary approach, and sometimes it is interpreted as an indirect way to the recognition of the fact that information has its price.

Williamson analyzes three kinds of egoistic behavior (i.e. self-interests), which respectively corresponds to the above mentioned forms of rationality:

- opportunism as the strongest form (deception, lie, theft, etc.), which contradicts the respect of the rules and involves self-interest,
- semi-strong form or simple self-interest, and,
- obedience as a lack of self-interests, which is associated with social engineering.

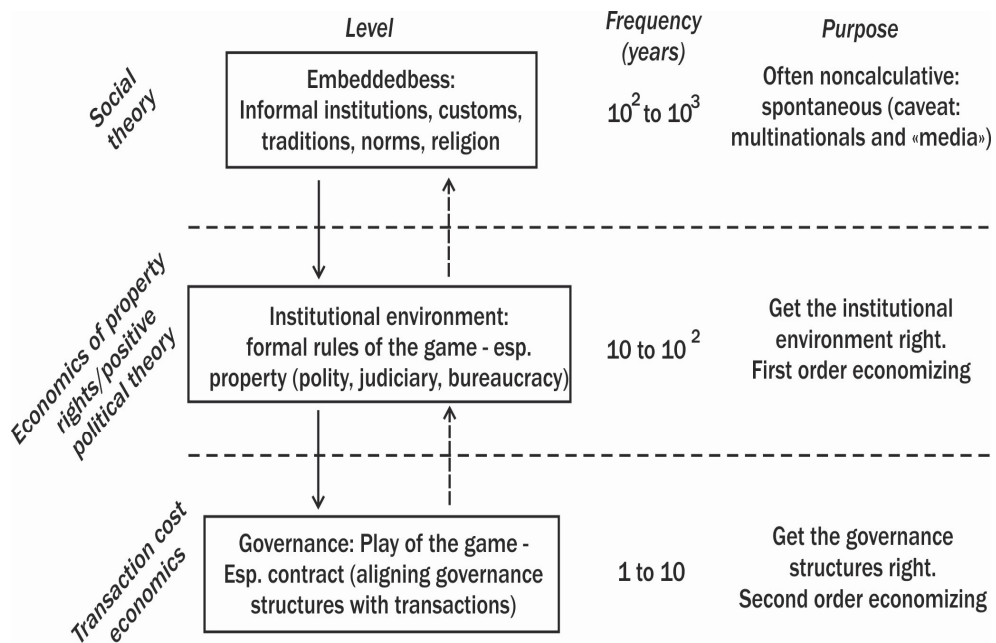


Figure 35: **Economics of Institutions**

Source: Williamson 2008, p. 13.

### **Mistakes of Post-Socialist Transition Through the Prism of Williamson's Interpretation**

Williamson's distinctions of the hierarchical system in a horizontal market relations, and his interpretation of the institutional structure, clearly shows his commitment to institutional pluralism. The practice of post-socialist transition contradicts institutional pluralism, as in the most of the countries is imposed institutional monism of neoliberal type, which is essentially reduced to a quasi-institutional system due to dominance of alternative institutions. In other words, priority of individualism to institutional pluralism has been constantly potentiated in order to enrich the privileged minority in relation to the proclaimed reformist mass. Consequently, the vast majority of the people has been impoverished.

Instead of implementing real institutional changes and improving institutional structures (by creating institutions of development), which would allow the extraction of innovation rent, imposed "reformers" have created anti-development institutions of alternative type, enabling rent-seeking behavior i.e. enormous gain of political rent through various anti-entrepreneurship structures, as well as the status rents to the officials. The new innovation institutions have not been created, and old institutions have been destroyed, despite their limited control of the transaction costs.

Hybrid alternative institutions have been created, strictly controlled by the ruling party and nomenclature. In order to enrich non-market (economically dysfunctional converting the state capital into private property), they have parallelly and legally caused the enormous increase in transaction costs, for various reasons (transformation and impairment of property, cease and/or reduction of production, forced retirement, the costly social programs, destruction and/or dysfunctional use of economic infrastructure, inappropriate financial debt, increase of opportunity costs, erosion of state assets and economic resources, formation of non-market alternative inefficient and theft institutions, lesser economic growth and income, number of negative external effects, etc..).

In the whole proces, particular causes of the increase in transaction costs may be:

- the reduction of institutional competition, which has been substituted by a wide range of social pathology with enormous growth of informal sector,
- broken relations and dependence on the previous development (path dependence),
- dominance of privileged private and group interests in terms of imposed application of neoliberalism (“*final plan*” - Williamson 1989, 1994), i.e. imitative “*pie-ce-meal social-engineering*” (K. Popper), which led to disastrous economic effects of privatization, social polarization and the spread of systemic corruption, and
- anti-institutional function of incompetent political elite, increasing the party and government authoritarianism, without concession to the market (as promoted), increasing the problems of social and economic development, and drastically limited economic choice.

Analysing institutional structures in most countries of post-socialist transition, many authors warns that:

- propagated and nominated mass of private property in transitional countries is substituted by enormous property of a few privileged (non-market) rich individuals, and
- economic (and other) institutions are the most developed in capitalism as an empire of “*true individualism*” and pluralistic institutional arrangements, where real institutional changes are continually taking place.

Institutions by its nature depend on individuals who create them in historical and social perspective. But, individuals can not replace them (except in the quasi-institutional arrangements of alternative type). It is believed that in certain post-socialist countries was another controversial regularity: structuring, directing and restricting individual behavior certainly formed and reinforced alternative institutions have created some preferences towards market behavior of individuals, having a crucial impact on the redistribution of ownership and the consequent negative relations

of dependence and other effects. This led to specific anti-development institutional structure, which has reproduced throughout the transition period.

Instead of economic development based on the strengthening of institutional structures and limiting the opportunistic behavior, which Williamson did clearly marked as a source of transaction costs, the post-socialist countries have program-mely flourished with opportunistic behavior. With a short historical distance can be estimated that it was completely supported by nomenclature structures of government, because that has been the basis for a variety of ownership manipulations, i.e. the non-market (alternatively) redistribution of property rights. This has led to a huge overflow of a state ownership into private ownership, without continuum or with reduced market function of the privatized firms, with huge growth in transaction costs, profit losses and rising unemployment, followed by populist and institutional deformation of social programs. Institutional structure and economic infrastructure have also been deformed and crippled.

Transitional institutional environment, predominantly focused on the promotion of market institutions and privatization, have lost not only pluralistic institutional capacity, but also some of its vital elements (legality, good judicial practice, control and changeability of government, the rule of law, etc..). That led to deterioration in the efficiency of the implicit social contract, an increase in opportunistic behavior and the formation of a quasi-market structures, which have consequently prevented the efficient functioning of markets. The non-market appropriation has been widely enabled, and transition reforms discredited. The social and organizational capital have received new control and new owners, with the help of a dominant alternative institutions and numerous conflicts of interest. That way, the institutional competition and Pareto optimum have been undermined, but influence of the Coase's theorem have been enabled.

Economic policy and economic behavior of economic subjects in most post-socialist countries have been completely contrary to the recommendations of O. Williamson: Instead of controlling opportunism and reducing transaction costs – they have been maximized, instead of institutional integration and expansion of the enterprise's vertical boundaries – there have been disintegrated, instead of strengthening control mechanisms – things got out of control, instead of institutional pluralism – imposed have been institutional monism of (quasi) neoliberal type, instead of fight against asymmetric information – they have dominated the economic choices, instead of competition – monopolies have dominated, instead of entrepreneurial choice between the ratio of the market and shape of the company – non-market and destructive behavior have dominated, and instead of institutions – quasi-institutions. Consequences are very negative economic results and reproduction of the crisis.

One of the most important Williamson's conclusions (2000, p. 605), which can be applied in the post-socialist countries, is that the political and economic governance structures have been directly responsible for implementing institutional chan-

ges in the social and economic level. Since these structures have almost never been responsible for the failure, they have not been obliged to critically review their decisions and implementation of neoliberal formula. On the other hand, since most of these structures have been self-interest motivated and lobbyist associated with the quasi-entrepreneurial subjects, opportunistic behavior have been tolerated, using benefits of asymmetric information for the purpose of non-market wealth building, particularly in the institutionally deformed process of privatization.

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# HYPOTHETICAL MATRIX FOR INSTITUTIONAL MODELING OF THE BASIS FOR ECONOMIC DEVELOPMENT IN THE COUNTRIES OF SOUTHEAST EUROPE

Milica Delibasic

*In this paper we propose three hypothetical matrices for institutional modeling of the basis for economic development. They apply selectively chosen elements of Neoinstitutional Theory (NIT) and convention theory, which are in line with affirmation of institutional pluralism and criticism of institutional monism. In this sense, the developed institutional pluralism is critically and polemically opposed to all forms of opportunistic behavior, which in the conditions of the domination of institutional monism leads to the creation and strengthening of alternative institutions. Its hypothesis is that the hypothetical modeling of pluralistic institutional basis for economic development must be based, inter alia, on the elements and recommendations of the NIT and the convention theory on key issues (research parameters). This is especially the case with institutional elements, factors and recommendations that have been confirmed in the practice of developed countries. The conclusion is that the economic growth requires strong and pluralistic institutions, which represent the best means of protection from all forms of opportunistic behavior.*

**I**n the period of expansion of the parallel processes of globalization and post-socialist transition, which are ongoing for 25 years, there were rapid and dynamic changes of economic reality, the structure of contradictions, systems and criteria of values, development priorities, expression of interests of various social groups and the like. All this had a significant impact not only on the practical manifestations, which often had a dominant crisis character, but also on the development of many schools of economic thought, of which the most renowned were the neoinstitutional theories (NIT).

This paper studies the analytical and methodological models of bounded institutional rationality on both theoretical and practical level. It is created with the aim of explaining the role and importance of pluralistic institutions in developed countries, which is reflected through economic growth and sustainable development. Hence, there was a need: a) to prove the negative role of all forms of institutional monism, which characterize, to a greater or lesser extent, the practice of those countries, and b) to criticize the deficit of institutions, which significantly reduced and deformed its role. Those are objective and long-term constraints of economic development. Therefore this research topic is extremely important for the future reforms, development plans and strategies of the SEE countries, which need be based on the radical, real, and pluralistic institutional changes.

It is known that deficient and degenerated institutional factors are the core of the hindering mechanism, which for two and a half decades prevents the desired economic growth and development of most transitional economies, including economies of the SEE countries. Institutional indicators and institutional changes are unsatisfactory and far behind the corresponding indicators in developed countries. This was directly reflected in the lagging behind of transitional economies of the SEE countries, deepening their social and economic crisis.

Given research could significantly contribute as a landmark for the policy-makers in adopting realistic and pluralistic institutional changes and the principles of bounded rational behavior in those countries. *The subject matter of study* in this article is wide, but in summary it includes: a) a comparative analysis of theoretical concepts of bounded institutional rationality, which involves a combination of constructive contributions of various NIT and effective pluralistic institutional practical arrangements.

*Scientific research* was set according to the aforesaid subject of study, and consisted of identifying the relevant elements recommended by NIT, in order to design and prove the hypothetical exemplary model of bounded economic rationality, which meets the needs of modern economies that favor sustainable development. This article formulates original matrixes, which can be used for hypothetical institutional modeling of the economic development foundation (for analyzing elements of the NET relevant to the institutional model, and elements of the convention theory relevant for institutional modeling. The benefits of institutional pluralism as a mandatory condition of economic growth and sustainable development have been reaffirmed..

## **Theoretical Approach**

The theoretical framework of hypothetical matrix for institutional modeling of the basis for economic development has been formulated based on the most important research papers of neoinstitutionalists and their key definitions, which are mostly heterogeneous (probably due to the complex nature and numerous functions

of the institutions). This paper is an attempt to selectively display the basic ideas of the NIT representatives and economics of convention, which can be applied to analyze the character, quality and level of real institutional changes in the transitional countries of SEE. In conceptual sence, as an inspiration and a theoretical guide for creating hypothetical matrices, which affirm the institutional pluralism, helped the research by D. North, J. Wallis and B. Weingast (2009), the scheme by E. Ostrom, R. Gardner and R. Walker (1994), presented in Figure 36, and the reasoning by W. Scot (1995), as shown in Table 26 and Table 27.

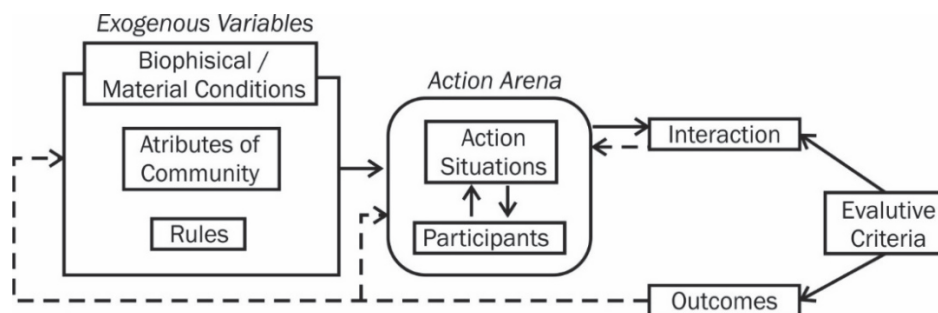


Figure 36. **A Framework for institutional analysis**

Source: Ostrom, Gardner and Walker, 1994, p. 37.

Table 26. **Three pillars of institutions**

	<i>Regulative</i>	<i>Normative</i>	<i>Cognitive</i>
Basis of compliance	Expedience	Social obligation	Taken for granted
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification accreditation	Prevalence isomorphism
Basis of legitimacy	Legaly sanctioned	Morally governed	Culture, knowledge

Source: Scott, 1995, p. 35.

Scott (2004) argues that this theory also provides insights into conflict and change within social structures. It should be noted the importance of logical scheme, shown by R. Greenwood, M. Raynard, F. Kodeih, E. Micellota, and M. Lounsbury (2011, p. 324), indicating the importance of institutional pluralism and its connection

to institutional complexity. It is believed (Jarzabkowski, Matthiesen and Van de Ven, 2009) that only developed and pluralistic institutional environment enables efficient managing the balance of social interests, with applied simultaneous skills for stimulating investment and entrepreneurship.

Table 27. Institutional carriers

Carrier	<i>Pillar</i>		
	<i>Regulative</i>	<i>Normative</i>	<i>Cognitive</i>
Cultures	Rules, laws	Values Expectations	Categories, typifications
Social structures	Governance, power sys	Regimes, authorita sys	Identities, isomorphism
Routines	Protocols, standard procedures	Conformity, performance of duty	Scripts, performance programs

Source: Scott, 1995, p. 52.

According to A. Stulhofer (1995), five characteristics of institutions are significant for our analysis, related to the hypothetical modeling of institutional behavior, as follows:

- institutions are permanent and organized social practice, a set of interactive activities,
- institutions include norms which direct, regulate and restrict given activities (thereby the norms are interpreted as socially constructed system of expectations, which directs individual actions, based on an external mechanism (formal and/or informal) sanctions and internal mechanism of socialization (the process of identification) ). To overview the classification of social norms see more in: Elster (1997), Stulhofer (Ibid., p. 957) points out that norms are the building blocks of institutions, and the institutions guarantee the maintenance of norms.
- institutions include the system of sanctions, which ensure the effectiveness of norms,
- institutions imply a role system, strictly defined tasks, responsibilities and interpretative framework, and
- institutions provide an important influence on the social structure because they act cohesively.

The analysis of institutional models has showed that economic development includes not only an economic subsystem, but also the broad spectrum of non-economic variables, including formal and informal institutions, cultural and other sys-

tems of values, as well as all forms of opportunistic behavior, that is established by alternative institutions (Figure 37). In some countries, various formal institutions (economic, legal, political and other) can not be considered only as an instrument for achieving specific objectives. Because they need to include the existence of precise limits between permissible and impermissible. These limits are defined by certain standards of social behavior arising from general moral norms, and cultural and social traditions. Thus, institutions have an instrumental character, as well as an inner value character, because they make the foundation for the commitment to the general objectives that go beyond personal interests.

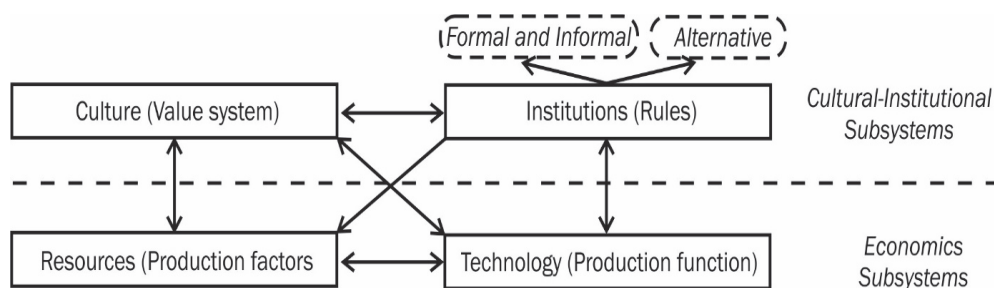


Figure 37. **Interrelated developments in the social system**

Source: adapted from Hayami and Godo, 1997, p. 11

Bounded rational behavior (institutional or any other type) directly contradicts opportunistic behavior (Delibasic, 2014, p. 15). The latter is caused by the existence of alternative institutions (shadow institutions), which have been shown to have a destructive influence on the valorization of economic resources. Opportunistic behavior has several negative meanings in economic theory (see more in: Williamson, 1993, p. 115). However, it generally represents the action of economic agents in accordance with their own interests, not taking into account the moral norms, but it contradicts the interests of other agents.

The institutional structure is a subject to various manipulations by private and/or group interests in all cases with loose borders with inner values. For example, the typical case where the nomenclature of government, or the political institutions, ignore the interests of the people, allowing the action of alternative institutions, by which they achieve the interests of privileged individuals and/or small social groups. In such cases, the legal system (laws, rules, standards, and procedures) is abused and undermined. In other words, the case management is dominated by autocratic institutionally irresponsible “*games without rules*” that marginalize “*games with specific rules*.”

During the period of transition in the SEE countries, the entire system of hindering factors was operating. It caused the creation of a non-functional conglomerate

system and institutional failure, especially in the state regulation. This was caused by an affirmation of institutional monism of neoliberal type, characterized by numerous market deformations and limits, favored by the policies and representing the basis for strengthening of alternative institutions. Generally, any institutional monism is a fertile ground for the manifestation of opportunistic behaviors and affirmation of alternative institutions, representing a form of informal institutions. This is especially important for understanding D. North (1991, p. 36). According to him, different societies with the same formal institutions have different results - due to different effects of *informal institutions*. This is particularly reflected in the countries with excessive market power and in the conditions where the ruling elite uses political power in the unethical way and obstructs the functioning of the rule of law. In these cases there is a blockade of action and development of socio-cultural capital and the reduced activity of formal institutions.

Alternative institutions are a classic example of a conflict between privileged individual behavior and existing institutional structures. M. Draskovic, S. Bauk and M. Delibasic (2016) argue that their establishment and operation is enabled by the existence of informal and privileged combination of two basic institutional monisms (the market and the state regulation). This combination of institutional monisms has been dictated by the so-called “new elites”, leading to institutional deficit in general, and institutional pluralism in particular. Alternative institutions have illegal, personified, sociopsychological, and destructive character. They extremely affect the real institutional changes in a dysfunctional way, leading to institutional fiasco. It was the practice in the SEE countries, where alternative institutions dominated over formal and other informal institutions, producing a long-term institutional vacuum, and thus deforming institutional structure of society. This has significantly influenced the reproduction of social and economic crisis.

The aforesaid has enabled a number of quasi-institutional behavior, which led to the increase of non-market forms of appropriation and other deformities. In the absence of real institutional control and institutional change, and even institutional adaptation, all of these factors coexist in a system of limited access to resources eventually will turn into a quasi-institutional monism, which ignores the massive social interests, subordinating objective regulators to the party control, imposing the narrow lobbying interests and subjective regulators of behavior. Many economists have warned that inadequate institutions have a destructive effect on the valorization of economic resources. Hence, to identify and overcome the mentioned phenomena, processes and behaviors, it is necessary to consider and analyze the relevant elements of institutional behavior recommend by the NIT and the convention theory.

## General Hypothetical Matrix For Researching and Institutional Modeling of the Basis for Economic Development

Given that this is a study of numerous elements and attitudes towards the above-mentioned key issues from several respectable NITs and the convention theory, we decided to show it hypothetically and matrically. In the general hypothetical matrix for institutional modeling and researching the factors of economic development, vertically are listed the key analytical questions, and horizontally are listed the views and recommendations, as well as relevant theoretical answers to them (Table 28).

Everything was done according to D. North (2006, p. 163) statement: “*In order to improve the institutional structure we must first have a clear understanding of the sources of such institutional structure.*” Thereby were taken into consideration the views of K. Shepsle (1986, 1989) about the “*institutional equilibrium*” as well as affirmative interpretations of the institutional pluralism by several authors (Jarzabkowski, Smets, Bednarek, Burke, G. and Spee, 2013; Kraatz and Block, 2008).

**Table 28. Hypothetical model matrix for researching the basis of economic development**

<i>Research parameters</i>	<i>Dominant views and recommendations</i>
Public choice	
Institutional pluralism	
Property rights	
Relationship between politics and economics	
Relationship between formal and informal institutions	
Level and impact of alternative institutions	
An attitude towards state regulation	
An attitude towards opportunism	
An attitude towards rationality	
An attitude towards social and cultural capital	
An attitude towards experiences of current development path	
Form of order and an attitude towards resources' access (open or restricted)	
An attitude towards violence	

Source: self creation

The research process for a particular country requires separate analyses for the NIT, and separate analyses for the convention theory.

## Matrix of the Nit Elements Relevant for Institutional Modelling of Economic Development

Below is the original hypothetical matrix for research and institutional modelling of economic development. It is consisted of selectively chosen ruling views and recommendations from the basic research parameters, which are refined from the relevant neoinstitutional theories (Table 29).

Table 29. **Model matrix for researching the NIT elements**

<i>Research parameters</i>	<i>Dominant views and recommendations</i>
<i>Public choice</i>	<p>The mechanism for decision-making at the political level should be fundamentally changed and improved. The development of economic policy depends on it. Also, a new system of political decision making should be established, similar to the system of marketing decision-making.</p> <p>People do not change when leaving the market and paving the path to the political scene, they act the same way in social roles as well as in any private role: guided by reflections on personal benefits and realization of their own interests.</p> <p>The choice of economic subjects in any economic system depends on a social choice, directly or indirectly, sooner or later, by its nature. Since people act in the political sphere following their personal interests, it directly indicates the link between business and politics, demystifying the notion of the state (government) as the sole protector of (state) social interests. „Rational” politicians support programs that contribute the growth of their popularity, prestige and opportunities to achieve victory in the next elections.</p> <p>They seek political rent through the political processes. There are cases when the government is unable to ensure the efficient allocation and use of social resources. That is called <i>government failure</i>.</p> <p>Therefore, it is necessary to constantly control the activities of the government and correct it in accordance with the socio-economic and political conjecture.</p> <p>The government failure (insufficiency, fiasco, misfire) is affected by the scarcity and asymmetry of information, the existence of powerful groups of influence, groups with special</p>



	<p>interests, active lobbyists, strong bureaucracy, imperfection of the political process (rational ignorance, lobbyism, manipulation of voting rules as a consequence of imperfect rule book, vote trading, seeking political rents, political-economic cycle, etc.) and restrictions regarding the possibility of control bureaucracy.</p> <p>The influence of the majority on the political decision-making depends not only on their preferences, the level of democracy, the specificity of the political conformation, the power of certain social groups, and the corresponding influence on politics, but also on the voting procedures (i.e. a rule book that it's based upon), which is not neutral.</p> <p>Political power in the so-called „democratic societies” is „naturally” switched (with the logic of organized interests of small privileged groups) to the hands of political leaders, as the representatives of those groups, who win the elections over unorganized and unprotected (or poorly protected) interests of large latent groups, which is the opposite to the rule the majority (and thus the real democracy).</p> <p>This way, relatively small lobby groups (or individual branches, clusters, etc.) often receive various benefits and privileges (tax, customs, monopoly, information, etc.) on account of the million consumers and taxpayers, which serves as the basis of their unjust enrichment.</p> <p>High quality statute need to precisely define: equal justice for all, human and other rights and obligations of citizens, the level of economic freedom, the structure of the institutional environment, the power limits of basic economic institutions (state and market regulation), specifications and protection of property rights, moral and other restrictions of economic freedom, contract validity and insurance, regulation of natural and other monopolies, and all the other situations where the state should intervene (economic aid, transfers, restrictions, taxation, external effects, etc.).</p> <p>This way, the theory of social choice gives direct and indirect recommendations against influential latent groups with „special interests.<sup>2</sup></p>
<i>Institutional pluralism</i>	<p>The development requires institutional pluralism of economic institutions, through various combinations. It is an imperative in overcoming numerous contradictions between the public and private interests, in establishing a dynamic equality and</p>

	<p>harmonization of mutual competition in a variety of institutional forms of regulation and coordination of human activities (social and economic).</p> <p>Institutional pluralism (as a combination and synergy of all institutions) is a condition for the formation and sustainability of market-oriented structure of every economic system. It contributes to the functional reduction of transaction costs and an increase of economic efficiency.</p> <p>Representatives of the NIT advocate a specific form of institutional pluralism in the economy: for the synergy of command hierarchy and regulation within the company and market regulation as their own environment.</p> <p>They insist on “<i>coevolutionary process</i>” of ideology and institutions. According to them, institutional synergy of the market and state regulation has no rational alternative.</p>
<i>Property rights</i>	<p>Specified and protected property rights essentially bring multiple restrictions into economic behavior. In reality, there are numerous restrictions and resolutions of property rights. The restructuring of property rights leads to changes in the system of economic incentives.</p> <p>Entities respond to these changes of behavior. Underdevelopment of property rights causes underdevelopment of the market, and an increase of the negative external effects, and thus the economic slowdown.</p> <p>No one shall be privileged in accessing the resources, thus the possible privileges may only be the result of manipulation and social pathology.</p> <p>Every act of exchange is essentially an exchange of authority groups: making the deal in the market, exchanging two sets of property rights.</p>
<i>Relationship between politics and economics</i>	<p>The institutions regulate the social and economic relations. They actually reflect through the relationship between the politics (ideology, party influence, form of government, democratic institutions, etc.) and the economy (economic activities, structures, entities, behavior, economic institutions, etc.).</p> <p>Therefore, institutions influence all other forms of social superstructure. Relations between politics and economics are intertwined in a real life, absorbing certain ethical, cultural, and</p>

	<p>civilizational values, through which are implemented certain policies as a social consensus within the society.</p> <p>The institutions have a positive impact on the reduction, control and relativization of the political dominance over economy.</p>
<i>Relationship between formal and informal institutions</i>	<p>Informal institutions (customs, traditions, norms, and religion) are not a subject of study of the economic theory. They are accepted as a fact, changing slowly – for hundreds and thousands of years, and many of them are formed spontaneously.</p> <p>Formal institutions (property rights, politics, law, judiciary, bureaucracy) may hinder or stimulate the production possibility boundary.</p> <p>They are evolutionary built in the process of institutional competition. In the society there are also alternative institutions that operate in greater or lesser extent and they are a major threat to the institutional structure.</p>
<i>Relationship to state regulation</i>	<p>There are doubts in the effectiveness of state regulation of the economy, which is questioned in the process of government decision-making.</p> <p>State (public) sector is not an ideal economic mechanism, because, among other things, it is unable to perform the transformation of resources into social goods in a way that meets the demands of consumers of those goods.</p> <p>In all forms of activities, people are driven by their own interests and preferences.</p> <p>Therefore, political decisions may to a greater or lesser degree correspond with the interests of the population (i.e. a criteria of economic efficiency and social justice).</p>
<i>Relationship towards opportunism</i>	<p>In the real market it is not possible to fully control the contracting parties, due to the opportunistic behavior. It represents a major threat for the company business, leading to uncertainty in behavior between the contractual partners. It occurs before or after the contracting, focused on achieving own goals of economic agents, and is not limited by moral consideration.</p> <p>It is necessary to control the opportunism in order to reduce transaction costs.</p>

	<p>This can be achieved through the satisfactory management mechanisms, including the vertical integration of the management hierarchy.</p>
<i>Relationship to rationality</i>	<p>Real institution reliably regulate and rationalize individual behavior to the extent of increasing interactional rationality between individuals.</p> <p>The specifics of institutional rationality is dictated by three factors: a) holism, according to which the institutions are primary, and individuals are secondary, b) limitations of information, and c) dependency on social factors (socio-cultural capital).</p> <p>Rationality of institutional man includes the minimization of transaction costs in in conditions of fraud and coercion. Rational behavior is placed in the context of universal norms and rules of conduct, acting either restrictively or motivationally.</p> <p>Therefore, economic rationality objectively manifests as bounded.</p> <p>Due to incomplete information, institutional behavior is characterized by procedural or bounded rationality, which is based on the selection of under-informed individuals who have subjectively developed their models, which differ from the models of other individuals. An individual is not able to make an objective optimal choice.</p> <p>To be „limitedly rational” means to be rational in the context of limited human capacity, and complexity of the environment. Therefore, chosen alternatives that are satisfactory but not optimal do not assume the knowledge on future events, nor the maximization of utility.</p> <p>From institutional perspective, a key source of bounded rationality of actors who choose in the conditions of true uncertainty is not a lack of information, but the fact that a decision-maker is generally faced with the information overload compared to his limited abilities to process them.</p> <p>Therefore, an importance of routines, habits, unwritten and written heuristics (rules in decision-making) is growing.</p> <p>A final result of choice depends on the selected procedure of decision-making. Although the institutions appear as exogenous</p>

	<p>in the processes of rational behavior and choice, they are extremely important. Especially is significant the pluralism of institutions.</p>
<p><i>Relationship towards socio cultural capital</i></p>	<p>Socio-cultural capital is a set of social values, adopted norms of behavior, ideological beliefs and other social structures. As a set of intangible social resources and informal institutions, it has great importance, because in a certain way it makes the connection between formal and informal institutions, or the macro institutional dynamics.</p> <p>Since institutions reflect the hierarchical structure of authority, which is a necessary condition for the effective punishment of violations, it can also affect the negative processes of decision-making monopolization and the abuse.</p> <p>Secondly, it creates the possibility of affirmation of imposed asymmetrical conditions for accessing the resources and strengthening the alternative institutions, allowing the particularism as a specific promotion of economic, political, social and other interests of privileged social groups and individuals.</p>
<p><i>Relationship to the experiences of the previous Path Dependency</i></p>	<p>Institutional innovations strongly rely on the current <i>Path Dependency</i> (i.e. latter events depend on former). Therefore, institutional innovations are not possible in terms of the dominance of alternative institutions, or informal mechanisms of choice. Relatively inefficient economic systems show that "<i>history has significance.</i>"</p> <p>Dependence on the past development is determined in the part of institutions primarily by the social factors. It is expressed on two levels: individual institutions i institutional system (such as economic).</p> <p>Very important factors of influence on the modern development are: network effect, coordination effect, the effect of cultural factors (mentality, education and social consent), and the effect of the longterm social capital (i.e. quasi-irreversibility of the original socialization).</p> <p>Closely related is also the effect of rejecting the new, which raises the question: how is it possible that bad institutions dominate over good ones, or why is negative institutional inertia (a.k.a. „institutional trap”) prolonged?</p>

<p><i>Relationship to access resources and violence</i></p>	<p>It is necessary to study the methods of limiting the violence in the society, and various forms of social pathology, which include: non-market rents appropriation, vote trading, corruption, the use of privilege, coalitions of interests, ignoring the masses, protecting their own people, etc.).</p> <p>That can be achieved in two ways: <i>the first</i> is political manipulation of the economy in order to build a privileged interest groups, and <i>the second</i> is institutional stimulation of political and economic competition, aimed at creating stimulating developmental conditions. The first corresponds with the so-called <i>limited access</i> (to the political and economic resources), and the corresponding "natural state" with numerous factors of economic and political development. The second method also corresponds with so-called <i>open access</i> and appropriate institutionally developed state.</p> <p>In countries with limited access, there are individual organizations and elite groups, which extract the rent due to privileges and certain tacit, "special rights", or personal "connections". Therefore the system is disbalanced with volatile order, the politics is linked to the economy and dominates over it, the minority (the alleged „elite“) manages the majority, deformed informal and alternative institutions (which are extremely personified) are dominating, and organizational structures are very unstable.</p> <p>Limited access (inequality) is ensured by the deficit of the rule of law, insufficient guarantees of rights and freedoms, and the lack of competition in the political and economic system. Place in the hierarchy determines the position of individuals in relation to the law and the nature of a governance.</p> <p>Civil society and democracy have not been developed, the opposition is weak, and there is a partial provision of services by the state.</p> <p>Bureaucracy is poorly controlled and unprofessional. All this has a negative effect on economic growth, and on the adaptive efficiency.</p> <p>There are three conditions for the transition from the „natural state“ (limited access) towards open access: a) the subordination of elite to the rule of law (equal treatment for everyone by the law), b) the existence of unlimited and stable organizations, which do not depend on the state nor of the</p>
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	<p>specific individuals, and c) consolidating the control over armed forces and technologies of violence and demolition (curbing violence).</p> <p>The logic of „natural state” stems from the methods of solving the violence: elite (members of the ruling coalition) coordinate the privileges, including property rights and access to certain types of activities.</p> <p>Creation and appropriation of rents is manifested as the „glue” that holds the coalition together.</p> <p>It increases the cost of privilege, because elite turns into more productive, thanks to their organizations based on networking (hierarchy of personal relationships).</p> <p>Such organizational method drastically reduces the efficiency of society, economy, and politics.</p> <p>It produces a deep and intricate web of corruption, which is the most common in patron-client relationships.</p> <p>Its sustainability is based on the elimination of strong internal institutional structures.</p> <p>Open access in the economic system protects the political system from manipulation of economic interests, and it guarantees the equality of citizens and the shift of power in case of abuse.</p> <p>The political system should restrict access to the means of violence. Along with the judicial system, it ensures respect for the prohibition of the use of violence.</p> <p>This allows strong and transparent institutions that provide impersonal democratic and party competition, preventing illegitimate use of violence.</p>
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### **Matrix of the convention theory elements relevant for institutional modeling of economic development**

Below is the original model matrix designed to analyze the matter in question. It consists of selectively chosen ruling views and recommendations from basic research parameters identified from the respectable French convention theory (Table 30).

Table 30. **The model matrix for researching the convention theory elements**

<i>Research parameters</i>	<i>Dominant views and recommendations</i>
<i>Public choice</i>	<p>No form of argumentation of the so-called „institutional worlds” has a universal character, because it contradicts other forms of argumentation, whose analysis allows to explain the nature of the critical situation. Each of the coordinated forms in some sense is a <i>constitutional agreement</i>, whose character is manifested only in the process of dispute with other forms of institutional coordination.</p>
<i>Institutional pluralism</i>	<p>An existence of numerous institutional “worlds” (subsystems) is conditioned. Proposed is their synergism, which maintains and provides dynamic balance and compromised harmonization of their relations. It neutralizes possible expansion of individual subsystems at the expense of other subsystems (i.e. it eliminates institutional monism).</p> <p>This is not the case of the market imperfections per se, but the characteristics of complex economic reality where all institutional “worlds” coexist. In the so-called “critical situations” (conflict and/or non-conflict relations between the various institutional subsystem) it is possible to use different ways of the coordination, not just one as a supposedly “naturally given and objective.”</p> <p>There are a lot of important causes underlying the economic motivation, as well as many ways of economic coordination.</p>
<i>Relationship between politics and economics</i>	<p>The central place of institutional analysis belongs to the politics, because it is an ambience of mutual interaction between economic agents which initially bears a political character.</p> <p>Conventions act as the representatives of a common world, and institutions as mechanisms for monitoring the rules and objects of the structure, and thus simplifying the process of forming joint worlds</p>
<i>Relationship to state regulation</i>	<p>Free market and government intervention are not the only universal forms of coordination.</p> <p>Essential is the existence of the prescribed norms and rules of conduct (in addition to the convention - an agreement).</p>



	<p>State regulation must ensure satisfaction of political adaptation (or suitability) and criteria of the common good in the society.</p>
<p><i>Relationship to rationality</i></p>	<p>Rationality is given a relative and interpretive character, because people in everyday economic activities, in addition to their own rational budget, also must apply and respect different conventional frameworks, through which they understand the intentions and actions of other people.</p> <p>This requires cognitive, and evaluational (<i>interpretative</i>) efforts. Interpretative rationality is the ability of harmonizing economic activities through oriented behavior, comprehensible to all participants in the transaction.</p> <p>It includes the ability to form correct expectations from another entity's action, or the proper interpretation of his intentions and plans, allowing others to understand (interpret) his intentions and actions.</p> <p>The rational-economic individual is positioned in the simplest institutional environment, where nature of institutions influence the substance of individual rationality. He must be able to assess the characteristics of the collective that interest him, which are the use factor for him.</p> <p>Therefore, it is essential that homo economicus, in addition to rationality, knows linguistic interpretation of the processes.</p> <p>Rational behavior draws resources from institutional environment and participates in its transformation.</p> <p>Uncertainty and lack of information can be reduced using agreements (conventions), through introduction of the general procedure of evaluation (<i>interpretability</i>) as a prerequisite for coordination.</p> <p>Rationality is just one of the incentives of market exchange.</p> <p>For this reason, to indicate these actions, the term <i>reasonable</i>, not rational, has been used.</p>

In the context of affirmation of institutional pluralism, representatives of the NIT recommend strong institutions, including the state and market regulation, which are limited in the realization of their own functions. Institutions guarantee that state and market regulation can coordinatedly perform their function. This means that

strong and pluralistic institutions, as "rules of the game" (North, 1990), serve as a means of protection from any kind of opportunity behavior, among others from all forms of non-market behavior, abuse of state regulation, and various stalling of institutional activity.

An institutionalized selection and institutionalized exchange are the conditions for sustainable economic development. However, the degree of institutional changes in the economy and society is often limited by opportunistic quasi-institutional behavior, especially in relations: pluralism-monism, formal-alternative, changes-status quo, horizontal-vertical, mass-individual, legal-privileged, political-economic, etc..

Numerous restrictions in economic reality (including institutions) influence economic behavior, which therefore has a nature of bounded rationality. Limited are intellectual capital, information, and access to the resources. If one adds opportunistic behavior, uncertainty, risk, previous development, socio-cultural capital, unprotected and unspecified property rights, increase of transaction costs, incomplete contracts, influence of politics, alternative institutions, and global environment, etc., it becomes clear just how big is a gap between the theoretical models of institutional behavior and its actual implementation.

Theoretical research has confirmed the initial hypothesis that the institutional modeling of basis for economic development need to be based, inter alia, on the elements and recommendations of respectable NIT, and the convention theory, at key research issues (parameters). The aforesaid has been presented in the originally created research matrix for the hypothetical modeling of institutional behavior. Thus it was started from the relevance of the five key characteristics of institutions, which have been listed in the Introduction.

There have been proposed two original hypothetical model-based matrices for broader and deeper study of the institutional basis for economic development in each particular country. It consisted of selectively chosen ruling views and recommendations from the basic research parameters, identified from the two groups of relevant theories: the NIT and the convention theory.

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# NEOLIBERAL RHETORIC AS A METAPHOR FOR QUASI-INSTITUTIONAL MONISM

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*After more than a decade of writing and critical analysis of neoliberalism, which resulted from a negative attitude towards the serious consequences that has produced in practice, We decided to try to explain its metaphorical essence. It is necessary, at least from a short historical distance, to examine individual opinions, conclusions and critics. We think that term neoliberalism has been incomplete, because it contains a significant metaphorical level. Therefore it can not be easily defined, especially not by using unilateral interpretation, according to which it represents imposed market entry in the specific context of public policy. The aim of this manuscript is to point out: a) neoliberal causes of the permanent and crisis transition, which caused major problems and deformities, and created a new dogma with uncertain lifetime, b) inadequate civilizational environment (in Huntington's definition), etatistic tradition (in Berdyaev's definition) and the creation of a quasi-institutional conditions that have enabled the introduction of new elitist (to a certain extent and sense of totalitarian) system under the mask of neoliberalism, c) the fact that forcing of quasi-neoliberalism is a privilege of unreasonable and/or highly interest oriented „reformists“, because delaying changes means delaying development, d) the difference between rhetoric and practice, ie. between the story of liberal democracy (which promotes the rights of individuals, human and social freedoms and human rights, as opposed to collectivism, totalitarianism and authoritarian policies) and quasi-neoliberal economic policies (global and transitional), that were dominant worldwide and paradoxically violates all liberal principles, and e) the use of state as a screen for expressing expansive nomenclature interests and non-market appropriation of its significant resources. In this manuscript We have marked neoliberalism as We perceive it: as a metaphor (or, metaphore) for multiple scam of the population. This text is an attempt to, with arguments of alternative choices and institutional pluralism, relativizes neoliberal apsolutism, and with argument of historical analogy to express the faith in terminating all empires and absurdity of human endeavor to conquer the world.*

*We start from the hypothesis that the quasi-neoliberalism in particular events (monism, privileges, dictation, etc.) resembles the elitist dirigisme.*

The development paradigm with particular criteria and values has existed in all historical periods of the society. Development has always had a contradictory character, because order and chaos have never existed in a pure form, but in different combination, with domination of one form or the other. They were mutually interdependent and dependent in their intertwining. The dominance level of order or chaos in society was determined by the extent of the crisis in general and in specific areas, and consequently by the rate of development. One of the most important and the strongest driving forces of modern civilization is a connectivity, causality and dependence of the market economy (which basically contains private enterprise), of the technological progress and of the institutionally developed and of the flexible government regulation.

We live in a time that according to the perception of many authors, neoliberalism (as an ideology, doctrine, philosophy, theory and metaphor) in global and local boundaries *manifests* itself as an immoral, inhumane, brutal, chaotic, crisis and hegemonic system (order) of power, governance, violence, exploitation and greed. This is the time when everything is relativized, thanks to neoliberalism, paradoxically and ironically, due to interests and rhetorical absolutism of freedom and market. An alibi-neoliberals are placed in the position of neoliberal metaphor! It seems like amorphous, monotonous, orchestrated anti-state, anti-national and anti-development bluff, rooted in a patronizing state levers! L. Althusser (1970) has made a distinction between the state's repressive apparatus and the ideological state apparatus. The repressive apparatus is palpable and is applied in public bodies (police, judiciary, army, government administration). Ideological state apparatus is invisible and keeps the society together. It points out their interdependence. Ideology is a social process, which operates through certain segments of the society (church, family, education, politics, unions, media).

Nothing new, though! Economic science has often led a double life (in theory and in practice) during its development. Here is a follow-up statement by M. Kovacevic (2012): „*In these turbulent times, the issue of economic reforms and policies was relinquished to a group of economists of very modest knowledge and they were assigned to departments, or areas they had never been studying in their professional careers!*“

A new time requires new ways of thinking and behaving. It should be reduced to the adaptation towards civilizational achievements for active involvement in the contemporary processes and flows. This essay is an attempt to provide its own view of the neoliberal metaphor as a serious social challenge, and the response to that

challenge. The task of economists is not only to provide answers to theoretical questions, but to objectively, ideologically, neutrally and critically analyze the economic theory and its application in economic reality, as well as explanation of the methods and factors that have contributed for the nations of post-socialist countries to quickly break up with everything (or almost everything) what they were worshipping for decades, and to expiate (many nostalgically) because of it today.

We intention was not to advocate a return to the old system. We guess it is quite clear that socialism was not effective, therefore its crisis had initiated the process of transition, *„changes in the value system had coincided with the economic necessity“* (I. Naisbitt).

Before the current global crisis D. Rodrik et al. (2004) concluded that the time of neoliberalism and the Washington Consensus (hereinafter: W.C.) is finished, and offered alternatives (what should be done after neoliberalism). Later, he formulated this idea in his article (2006) as follows: *„Proponents and critics agree that the measures inspired by W.C. did not give desired results. Therefore, current debate is not about whether W.C. is dead or alive, but what will replace it.“* The alleged “creator” of neoliberalism, J. Williamson, after the outbreak of the global economic crisis, said that it was a mistake. But as much as it was a mistake (yes, it is a mistake and a sin), it still lives. Not only in memories, not only in the abstract and inconsistent writings (interest-motivated) proponents and (futile) critics, but also in the everyday events of social and economic reality: inequality, poverty, exploitation, etc.. It lived before its new nomination, it lives and will live, but probably in some other forms and names. How and why?

The answer suggest words from the speech of N. Chomsky at the Rome Science Festival 2014, where he presented his new book *„Masters of Mankind 1969-2013“*. He said that technocratic and financial oligarchy rules the world, that European democracy is dying, because the policy only serves for bankers and bureaucrats to make profit and become richer. In addition, he said the following: *„Our societies are moving towards plutocracy, which is the main objective of neoliberalism. Numbers from the British Association of Oxfam are frightening - 85 richest people in the world have the same wealth as 3.5 billion of poor. This is the biggest attack on the world's population for the last 40 years ... it is just as important as the wealth that flows into the pockets of 1 % of those who are at the top, those who decide on world politics.“*

These words provoke memories of numerous works on neoliberalism (*pro et contra*). But perhaps the most striking statement was of Russian writer and historian N. Karamzin. When he arrived in Paris at the beginning of the 19th century, Russian immigrants greeted him at the train station and asked what was new in their country. He briefly replied: *„Robbery!“* He was referring to unscrupulous plunder of those people who were high in the hierarchy. History is repeating in some things. Today, there is a strong awareness (and certificates) of the thefts, corruption and many other system abuses, which make social pathology of the society(s).

The latest Chomsky's oration, as well as Karamzin's statement, could have been an inspiration for writing this manuscript. But it is not. My motive is an old idea, to be jointly published and compared to a number of other and my own views, which has been partially published in various scientific papers and journals in recent decades. And to try to devise an objective story about subjective discussions on neoliberalism and its controversies, paradoxes, myths, reviews, approvals and contradictions, that were dominated, as it seems - by the antinomy and multivoice. So that this story would not be just a critique of a paradoxical, contradictory, crisis and long-term process (which does not flinch) with poor results, but a reminder and a landmark in the struggle for loudly proclaimed freedom, democracy, institutionalization and a some better, more just, more humane and more developed society.

The reason for writing this manuscript is not just analysis, explanation and critique of neoliberalism and its forms, but also the cause of its evolution towards vulgarized quasi-neoliberal model. The aim is to point to the existence and functioning of the vicious circle of crisis (global and transitional), created by the following relation: theoretical neoliberalism<sup>6</sup> as an institutional monism - its vulgarization, dogmatization and subjectivity in practice - through manifestation of freedom of operation and connectivity of supranational and national elites - tycoonisation and the criminalization of the economy and society - reproduction of the crisis. Mentioned relation has been maintained by paradoxical contradictory between rhetoric of universalism (pluralism) and its practical reductionism (quasi - monism).

In our previous works We have repeatedly marked the holders of neoliberalism, quoting their grotesque thoughts and analyzing the detrimental effects in applying this model in transitional countries. Therefore, this article is not written to point out the culprits or their recognition (I realized that was useless long time ago), but only the phenomenological and ontological critique of quasi-institutional monism and advocating the institutional pluralism, which I believe is civilizational and development imperative.

We did not want to cite some orchestrated views of „neoliberals“, who are known, more or less. I thought it would be enough to name their arbitrary and dubious unsubstantiated opinions a common term: neoliberal rhetorics, dogma, apologetics, demagoguery, clocklotrism and, of course, a metaphor.

It is irrelevant for this article who, when, how, why and what has some „neoliberal“ once said or wrote. It is important that neoliberalism has continuously served as a metaphor! Another reason for avoiding so many neoliberal ideas, is that no neoliberal have never responded to my criticism and the questions that I have openly

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<sup>6</sup> Liberalism has evolved from large scientific and intellectual doctrine to narrow ideological apologetics of the specific policies, which was (and still is) implemented in the interests of certain social groups. Losing touch with its scientific basis, ideology always called upon to it, declaring its continuity. Modern neoliberals are doing the same thing: referring to the tradition of the great thinkers of the past, ignoring the fact that they have gained fame in the struggle against feudal tyranny and absolutism, fighting for human rights, the constitution and civil freedom. In neoliberalism little remains of classical liberalism, even less could be said about the quasi-neoliberals and their dominant interest motives.



and publicly addressed to them, on several occasions. Naturally, some of those questions will be analyzed in this text again. However, I must mention two typical, too recognizable and often repeated regional neoliberal „pearls,“ which are distinguished by their non-scientific, tendentious, demagogic, declarative and defensive apologetics. They were published at various places and in various occasions, by authors from various countries in the region. I do not know if they were agreed, copied or just suspiciously and accidentally similar?

It is emphasized that there is (in those countries i.e. just locally) alleged „ideological struggle between liberalism and protectionism, liberals and dirigisme“! Imagine that metaphysical simplification! As if there is any struggle and as if in that „struggle of opinions“ wins or decides one or the other? As if there is no battle of ideas among well-known authors and developed countries? Existing in quasi-monistic, quasi-institutional, anti-developing and high interest circle of frauds, metaphors and „meta-phors“, so-called neoliberals seem not to notice the possibility of existing institutional pluralism featured in developed countries and economies?! Their view is purely monistic (out of habit, need and interest), through black-and-white prism. Therefore they see only liberals and dirigists! That is why at conferences they were always bothered by the term „mixed economy“, which was just a symbol of institutional pluralism. Blinded by privileged and exclusive individualism, they (intentionally) fail to recognize the logical and civil need for *mass* of effective owners, for rational and motivated individuals, nor enormous inequality and expansion of the crisis, caused by quasi-neoliberalism.

### **Neoliberal experiment**

Globalization and transition have lost their universality and integrity, and therefore the confidence of the masses in positive outcome. That's why We wrote that globalization (some call it „filthy globalization“) should be globalized, and the transition should be reformed.

In most countries of transition reforms have been palliative and unsuccessful. Predictions and promises to improve the living conditions, freedom and economic development have not been realized. Delayed socio-economic processes and long-term reproduction of crises are accompanied by growing criminalization of society, negative selection of staff, ignoring knowledge and education, more debts, unemployment, dogmatism, destructiveness, instability, chaos, and many other negative phenomena and trends. Many authors believe that their quasi-institutionalization is common denominator, but neoliberalism is theological and ideological<sup>8</sup> basis and fundamental cause. There is a difference between theoretical stronghold of neoliberalism and real practices and economic policies, where the theoretical model has been vulgarized by application of double standards, initiated by interest motives of the „reformers.“

Most of the counties in transition, particularly the Balkan countries, are characterized with deep post-socialist problems, deformations, and disproportions, which have been deepened and complicated even more by global economic crisis. These consequences are results of erroneous economic policies and nonexistence of consistent developmental strategy and they also represent the focus of threatening crisis. Certain decision makers of economic policies, in the midst of unprecedented state interventions, are glorifying neoliberalism (thanks to which and on which waves they most probably came to power). They are forgetting that significant donations from abroad, direct foreign investments and loans are not the result of neoliberal economic successes but of a concrete politics of the West towards the region (V. Draskovic, B. Yernkyan, and M. Draskovic 2014, p. 114).

As for economic development of the Balkan region, it is based on permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neoliberal recipes of macroeconomic politics. The latter one has been extremely motivated by interests of insatiable appetites of state nomenclatures, which represented the main obstacle for institutional changes, apart from noticeable socio-pathologic milieu. All of this resulted in long-term destabilization of economic systems through disinvestments and spilling over of positive effects in spending instead of production.

This is an opportunity to outline the key *diferencia specifica*. Whether it is about application of theoretical models of neoliberalism, or about its practical vulgarization (quasi-neoliberalism), the institutional monism is in question, with its anti-development character and directly opposed to institutional pluralism. Controlled, complementary and interactive functioning of all economic institutions is time imperative and has no alternative. The belief in the neoliberal formula grew into the myth and turned into a cult, which paved and expanded highways of globalization and transitional mission. These abovementioned formulas have caused enormous social and economic problems, inequality, discontent and crisis. A numerous alarming warnings and criticisms of neoliberalism, made by some known to economists, sociologists, and other authors, didn't help.

The latest global financial and economic crisis, which „*followed up*“ the existing transitional crisis and other crisis, has sobered up the world and gave a convincing answer to the question of its main cause. It became clear that neoliberal experiment and improvisations caused devastating and unfathomable consequences. Using various instruments of financial „gymnastics“, boundless neoliberal deregulation dynamics have exceeded actual limits of economic reality, as well as the moral and institutional requirements (constraints) of rational human behavior. The newly created panic situation have broken the mystical belief in magic and self-regulating power of the market.

Transparent and interest-oriented neoliberal formulas of economic policy have been dismantled, but not destroyed, because their roots are deep and wiry in all spheres of social and economic reality. And their motives are infused into history.

Through the prism of logic and gnoseology it only seems paradoxical. But through the lens of phenomenology and ontology, there is nothing strange, because the order of the above formulas is maintained by the same methodology by which it was created: paradoxes, promises, opportunistic behavior, interests of big capital and power ambitions.

The neoliberal formulas were (and sometimes remained) just myth, actually put in the function of creating and maintaining a dogmatic, elitist, destructive and greedy concept of establishing and maintaining power, which tends to become omnipotence and total domination (country, unprincipled coalition, party in power and privileged individuals). It is a new „business“ formula of so-called „clockotristic“<sup>7</sup> character, used for maintenance and expansion of the hegemony of elite and their large capital, created by non-market actions. On a global and local level, it is based on exploitative motives and interests (towards underdeveloped countries and masses). It is well known that the development can not be based on the leaps. But it also can not be based on ignorance, immorality, lack of trust, lack of cooperation, social pathology, anti-civilizational and anti-human standards, anti-natural and anti-development antinomies, divestitures, false rhetorics, bluff, deceit, inequality, exploitation, unilateralism, monism, domination and demotivation.

Neoliberal ideological and economic formulas have been accepted as absolute truth, developmental monistic imperative preferred form of economic (market) relations and universal measure of social relations. Nothing was left outside the commercial efficiency and market competition: no education, no culture, no health or social care. Every interference by a public institution or social forces in the market has been declared unnecessary and harmful. It was numerously misused.

In their propaganda and practice, neoliberals have ignored the class relations, social differentiation and individuality in a mass scale. They have reduced the institution of state regulation to minimum services to the population (defense, justice and legislative system) and support of the market-based system, especially in the period of crisis and market fiasco (failure). Monistic quasi-market reforms in post-socialist transition period have failed to substitute the huge institutional vacuum, moreover, they have led to their expansion and transformation into a quasi-institutionalization.

We have never criticized the known and indisputable advantages of realistic, desirable and useful liberalization, which involves the expansion of an integrated market and healthy competition, increase the efficient private sector as a mass phenomenon and socially sound entrepreneurship. I have always advocated the reallocation of resources in the most rational alternative use, the need to adopt the latest knowledge, skills and technology, to increase productivity and efficiency, economic stabilization that ensures economic growth and employment, the development of a pluralistic institutional order and the rule of legal state. We have written that original neoliberal economic doctrine, as a positive economic theory *per se*, was not a bad

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<sup>7</sup> Metaphore for selling goods for a bill, throwing dust in the eyes, bying pig in a poke, etc.

thing (on the contrary). It assumes specific conditions and limitations, based on certain assumptions, considerations and recommendations, which are useful in certain micro-and macro-economic conditions, and the selective application of the like. But, We have pointed out that: theoretical postulates are one thing, quite different, inadequate institutional and another conditions, where neoliberal recommendations are implemented, and third is their deviant and vulgarized application (marked with prefix quasi) in many underdevelopment, post-socialist economies.

There are regulated, efficient, flexible and strong (indeed: commercial, institutional, resource and organizational) developed countries, and there are resource and institutional collapsed so-called „rapacious“ post-socialist countries, which are mostly out of control. It has never been quite clear if the further „minimization“ was even possible?

In position of expressed post-socialist social and economic non-system (organizational, institutional and normative vacuum ) it was not possible to create effective economic institutions. Government structures have opted for recombinant institutions, which enabled the establishment of various forms of quasi-institutional relations. Forcing institutional monism (of market) caused unforeseeable consequences. Various market constraints have contributed to the flourishing of uncontrolled forms of markets, which have nothing in common with the institution of effective regulation of market. The consequences were logical - elements of crisis have multiplied (low standard of living, social stratification, weak motivation system, unemployment, decline in production and all economic indicators, expansion of social pathology, criminalization of the economy and society, systemic corruption, gray economy, inefficient rule of law and al.). All this have deformed and reduced the economic reality and general institutional structure.

M. Draskovic and N. Grgurevic (2013, p. 72) state: *“Ignoring the essence of neoinstitutional economic theories and institutionalization as a practical process and specific socio-economic development ‘technology’, using its potential weaknesses of a systemic nature (possibilities for manipulation), quasi-reformers have imposed the individual ‘efficiency’ on the social efficiency. Using various non-market methods and procedures, they have transferred a significant part of the social (state) property into private property... Even if there were good intentions (and there were not, only profitable), the realization of any rules of conduct can be multivariate, depending on institutional and cultural environmental factors, but primarily on interests of the dominant political party (or coalition) in power. Strategy of ‘growing institution’ (Stiglitz) and ‘transplanting the institutions’ (Polterovich) does not fit in here. The causes are always the same - social, political and interest, but also methodology of reproducing institutional dysfunctionality (paternalism, nepotism, passivity, tradition of violating the legal norms, possibilities for unpunished manipulations, abuse and compensation, log rolling, lobbying , annuity-oriented behavior, etc.).”*

In time, structure, quality, quantity and function, institutional changes were behind other transitional changes, instead of being their support, stimulus and guarantor. In addition, there was a large gap between the formally established economic institutions and economic behavior in practice, which was far from the standard norms. Practice has shown that the forming an efficient economy of dominant market type was insufficient for bringing down the old control and managing mechanisms of the socialist system, for privatization of state assets and implementation of standard measures of macro-economic liberalization and stabilization. Many market institutions have not been formed, not even some of their essential segments. Also, the market infrastructure and culture have not been significantly enhanced. Unfortunately, integrated market is still an abstract noun, which is why it resembles the neoliberal mythology. Many market substitutes, mutant and pseudomarket structures have been rooted. Now, they only mimic a market infrastructure: flea markets, black, gray and quasi-markets (in a function of survival of the majority of the population), and monopolies (in a function of enrichment of minorities - Draskovic 2010). Competition is reduced to these primitive market structures. Overall analyzes of market relations in most post-socialist countries show that monopolies have fully exploited all the opportunities that they were amply indicated (enabled by privilege).

After unsuccessful socialist experiment, economic and quasi-institutional experimentation was applied again. Maybe it's time to discuss the impact (that) individualism had on collectivism. Individuals had a concept of collectivist basis and ideas, which indoctrinated masses have unconditionally supported, at rallies, party meetings, revolutions and in practice. Post-socialist „neoreformators“ were also just individuals, sheltered behind the party and/or academic titles. They have conceived so-called individualistic basis, which should have been applicable to all. But they were applicable and appropriate, as it seems, only and/or mostly to them - creators of quasi-individualism (vulgar neoliberalism), representatives of the nomenclature of authorities and their lobbyists. The application of (often rigid) own „*development experiments*“ with neoliberal macroeconomic formulas of developed countries in terms of inadequate post-socialist microeconomic environment and particularly underdeveloped institutional environment, has led to disastrous consequences.

In this context, M. Delibasic (2014, p. 23) writes: „*Transitional institutional environment, predominantly focused on the promotion of market institutions and privatization, have lost not only pluralistic institutional capacity, but also some of its vital elements (legality, good judicial practice, control and changeability of government, the rule of law, etc.). That led to deterioration in the efficiency of the implicit social contract, an increase in opportunistic behavior and the formation of a quasi-market structures, which have consequently prevented the efficient functioning of markets. The non-market appropriation has been widely enabled, and transition reforms discredited. The social and organizational capital have received new control and new owners, with the help of a dominant alternative institutions and numerous conflicts of interest.*“

## Neoliberal parallel and neoliberal totalitarianism

Despite their parallel existence in time, globalization and the transition are overlapped in methodology, interests, crisis and ideology. Neoliberalism is their common denominator. A neoliberal parallel means that both processes were essentially manifested through the reproduction of large problems and crises (which in time and territory had different intensity, shape, origin and duration), but also through their shift from developed to underdeveloped countries, from rich to poor, through various forms of relationships and dependencies. Almost everything connected with globalization and transition is basing, beginning and ending with the story of forcing the market as economic institution (regulator and coordinator), competition as its primary lever and economic freedom as its basic assumption. However in practice, the market, competition and economic freedom are not forced as a new (neoliberal) landmark of „development“, but on the contrary - the formation of supranational authorities (global) and national (transition) elite.

Reform and practice of many post-socialist and other countries has severely reduced proclaimed principle of uncontrolled markets. Post-socialist transition has convincingly shown that the „reformers“ were balancing (in accordance with their own interests if necessary), between use of neoliberalism as a metaphor of the hegemonic order (by the rich minority) and disguised protectionism (towards the poor and the defenseless mass). In practice, the propagated competition and economic freedom have been substantially suppressed at every step of the growing international and national monopolies and non-market won competitions. Only the facade changed and apparently humanized the manifestations of the „reformed“ forms.

Post-socialist practice shows great similarities and/or the oneness of the neoliberal ideology application as a mask of the rich people (in the style of many authors: imperial) tendencies. Therein lies the specific parallelism of globalization and transition, the global and transitional quasi-neoliberalism. According to many negative events, it seems that socialist utopia, institutional monism and dogmas were just replaced with new utopia, new quasi-institutional monism and new dogmas. Dictation and violence of the state were replaced with dictation and violence of the „new entrepreneurs“ (nouveau riche). The dominant and retrograde request of time – *getting rich at any cost* – remained the same. This is the essence of globalization parallelism and transition. Paroles, promises, domination of politics, the crisis reproduction, reformed apologetics and palliativeness, monistic thinking and monopolistic behavior, have been taken from ancient times in order to achieve this.

The doctrine of neoliberalism has undoubtedly been the ideological foundation of globalization and post-socialist transition, in approximately the same period of time. It is based on paradoxical and contradictory (civilization and rational logic, theory and practice) the principles of minimal (very limited) country and maximum (unlimited and uncontrolled / own-controlled) economic freedom and private property rights. It is clear what kind of relation can be between privileged minority and organized monopoly („effective entrepreneurs“) and most of the poor, the exploited

and unorganized individuals, in terms of the so-called „mini“ or „micro country“, whose sole function is to guarantee „fair“ relations at the unlimited free market. But, that was not accomplished!

The experiment of dirigisme, as a form of institutional monism and totalitarianism in the present countries of transition, began in socialism. Firstly in Russia (1917), and after the Second World War in other Eastern European countries, including Yugoslavia. Its characteristics are:

- open repression of government system, domination of bureaucratic statism and control (command economy), with planned naturalization of goods-and-money relations, undeveloped and unorganized market,
- economic inefficiency caused by destimulative system, paternalism, lack of interest of employees, fictitious employment and so on,
- ideological and political subjectivism and dogmatism, which caused dissatisfaction of the people and a number of socio-pathological phenomenon,
- ideological blurring the essence of economic realities, dominated by the monopoly structure,
- virtual collectivism with organized economic and political coercion and equality at a low level of meeting needs,
- vicious circle of the system fundamental elements (state ownership - monopoly of the state sector - a complete planning determination - the path towards communism), and
- a number of negative consequences, such as price disparities, merchandise trade deficit, trade imbalances, speculative market, hidden inflation, low living standards, extensive economic growth, economic stagnation and crisis, reproduction of totalitarianism in all areas of life and work, systemic corruption, clear bureaucracy and so on.

These characteristics indicate that there is enough similarity with transitional („borrowed“) neoliberal dirigisme. Ideal neoliberal globalization and transition in its monistic aspirations have something in common with totalitarianism.

Shift of the socialist dirigisme paradigm was supposed to overcome the monopolistic position of the state in economic regulation, and its dominant share in the structure of ownership, referred to as the cause of the hindering economic and motivational mechanisms of post-socialist economic systems. Did neoliberalism find fertile ground in the former socialist countries or was it imposed from the outside, with the blessing of new „reformers“?

Maybe that is irrelevant. More important is, unfortunately, imposed change of one dogma formation (socialist values) to another (primitive values of individualism and outdated liberal capitalism), rather than the transferring civilizational values. Civil, political and party monopolies were used to establish an specific quasi-institutional order, creating new monopolies, combined from nomenclature authority and privileged individuals. Socialist relations of state functions - privileges were exten-

ded and turned into a much more dangerous combination: *state functions - privileges - enrichment*. It has produced changes with multiple negative prediction and monopolies, which in almost all areas of society produce devastating consequences, disturbed relations between private and public interests, entrepreneurial and destined behavior.

Totalitarian projects, although based on different grounds, are designed to massively subdue almost all individuals over promises about alleged messianic character of some abstract, iconic ideas. All these ideas were the basis of particular ideological matrix, which essentially (deterministic) subdues the masses to the elite and deprives them from real choices and propagated ideas („empires“ race, class, freedom, etc..). The ideas of totalitarianism were different (unity, preference, freedom), but in all of them was only one ideal, as their common denominator - *the dominance of the privileged*. And there was always a mask called *massiveness* for hiding cults. Realization was a combination various methods of dictation, terror and coercion.

Every totalitarizam has its mechanisms and structures, which represent paths of power. It is characterized by strong vertical and pyramidal government, led by the leader (dictator), which relies on the party hierarchy. None mega-ideology of totalitarianism *per se* does not contain anything vicious. On the contrary, it is very attractive to the masses. But its essence is in methods of governance. For example, in Russian socialism (communism) it was bolshevism. It is no coincidence that the V. I. Lenin had evaluated his sympathizers not only and not so much by their communist beliefs, but by degree of their bolshevism, and their willingness to abandon morality for achieving „*absolutely correct*“ goal. And „*the goal justifies the means*.“ Maybe that is why some authors call neoliberalism – „*neobolshevism*?“

Totalitarianism as a tendency for complete control and exclusion of many from accessing the resources and freedom, is the negation of human liberty, ie, kingdom of unfreedom. It is paradoxical that neoliberalism ostensibly imposes freedom, and doubts democracy, conditionally seen as majority rule. Any idea of massiveness is a potential threat to the alleged individual rights and freedoms! That's why neoliberals prefer the rule of the elite, executive and judicial authority.

Nihilistic fruits of totalitarianism are rhetorical and aggressive tautology, striving for practical obedience of the masses and establishing „eternal“ world order. These „fruits“ grow fast and mature – resulting in various problems. Transition was rhetorically based on ideas, slogans and promises of liberal doctrine. Its real flow, however, shows violence against society and the economy, and uncontrolled, haphazard processes, similar to primitive accumulation of capital (but with different consequences for the actors and methods of „organization“), followed by some devastating economic and social consequences. Forced attempts to shift a formational dogma (socialist values) with another („*outdated liberal capitalism*“ - a term by M. Friedman) in most cases did not lead to the replacement of old values with new civilizational values that exist in developed countries. There was a specific *metamorphosis* and



*adaptation* of socialist values and their *recombination* with a range of different new values (positive and negative, civilizational and anti-civilizational).

The neoliberal totalitarianism is possible to replace with:

- finding and accepting the optimal proportions and flexible relations between private (mass, not the privileged!) and state structures, individual and common interests, entrepreneurial and predicted behavior,
- real transition towards democracy, institutional pluralism, market competition and entrepreneurial motivation, and
- creating conditions for the free exchange of property rights.

Real and radical institutional changes are general framework, the common denominator and the precondition of all other changes. Boundless economic „freedom“ for individuals, created by non-market enrichment, are possible only in terms of institutional vacuum and institutional monism. Restrictive and protective power over society can carry out only the state and its regulation. In theory, institutional monism (neoliberalism) denies institutional pluralism. In practice, quasi-institutional monism (quasi-neoliberalism) denies not only institutional pluralism, but also institutional monism. It is based on alternative and quasi-institutions. This is a paradox, which contains neoliberalism and has anti-institutional orientation.

The neoliberal mythology is not randomly selected. On the contrary! Neoliberal alibi-reformers believed (with reason) that market and democratic formula will have messianic affect to the population, bringing them more faith, freedom, private initiative, entrepreneurship, private property, motivation, efficiency and so on. It is forgotten (or probably intentionally disregarded) that every mythology is generally irrational, while economy is assumed to have rational behavior.

Therefore, important question is: Who benefits from unchecked and neoliberal „freeing the economy“ and who limited the economic freedoms? The answer is known. New privileged elite were formed. For economic quasi-liberals they were taboo and something that „market“ had (naturally) determined. For this problem of fundamental impunity, theorizing quasi-neoliberals mainly revolves in abstract, futile, and a vicious circle: *individualism - freedom - market - competition - private property - entrepreneurship - natural state of things*.

When economic decisions are influenced by the powerful administrative-party groups, then individual „players“ and their connections become meta-institutions, dominant over all other institutions. This has deformed the entire economic reality and institutional structure.

Modern realization of the „mini-state“ idea, in practice has led to a new form of totalitarianism and economic reductionism. In the most post-socialist countries in transition, it was a chance for minorities to enrich on monopolistic principles of non-market privilege and monistic institutional reasoning of the quasi-market, which was regulated on the principles of market restrictions. This was a major and intractable

paradox of transitional development and cause for reproducing the post-socialist crisis.

Total distrust in state regulation is not logical nor productive (at least in crisis), nor is it appropriate to the growing IT, manufacturing, financial and civilization integration in the 21st century. The way out, volens-nolens, must be sought in a controlled, interactive and complementary functioning of various economic institutions (institutional pluralism). If we ignore (eliminate) institutional pluralism (in any possible combination) and/or put the individual (closely grouped) in control, if we reduce institution (rhetorically and practically) to monism (dirigisme or neoliberalism) or essentially to quasi-monism, then occurs the possibility of abuse, ignorance, oppression and converting to their opposite - a quasi-institutions. Then occurs a blockage of institutional change, the destruction of institutional synergy and institutional competition.

The possibility of institutional control is always directly proportional to development degree of institutional environment and level of the government control (policy). Counter-productive institutional monism is inevitably and quickly transforming to a variety of pathological forms, making a quasi-institutional matrix. It is largely determined by the parties in power, which participate in creating and strengthening distributive coalitions, monopolizing all aspects of life, cartelling the market and in turn influencing the public policy. This enables illegal and non-market appropriation of the state property. Rent-oriented behavior expands. Nominally (formally) exist democratic and other institutions, serving only as a cover for greedy realization of distributive coalition. The new „elite“ have no interest in strengthening institutional power of the state. This creates a vicious quasi-neoliberal circle of anti-institutionalization. It begins with an institutional vacuum and spreads across institutional reduction to institutional fiasco. By expansion of this vicious circle expands the aftermath: economic, sociopathological, social and other.

How was this vicious circle of anti-institutional maintained in a long term? Elimination of institutional competition leads to elimination of the market competition and deformation of economic institutions in the market regulation. This further leads to suffocation of economic freedom, entrepreneurship and natural market functions and principles. Affirmation of non-market behavior, with the blessing of neoliberal economic politics, stimulate rapacious appetites of the privileged nomenclatures, which take control over the institutional ownership. In terms of unprotected and unspecified property rights, manipulative redistribution is enabled in larger scale.

### **Neoliberal individualism of the privileged**

Paradoxically, a few things have been forgotten. *First*, if freedom has no social constraints, greed becomes driving impulse of privileged individuals for enrichment. *Second*, individualism is not mentioned, because it is a *metaphor for massiveness*.

An abstract individuality is imposed, which has proven to be a *metaphor for privileged individuality*. *Third*, such perverted and reduced individualism by some „reformers“ who have shown to be „skilled and capable entrepreneurs“ (so-called „*efficient owners*“) is imposed as a social and civilized norm. *Fourth*, individualism (of the privileged) has become a foundation of the formal institutional monism as theoretical and ideological basis for economic neoliberalism (economic clockottrism, in terms of „*smoke and mirrors*“, without prejudice). It was and still is directly opposite to institutional pluralism, and therefore, to the real institutional change.

These paradoxes have created a wide and strong mechanism of sociopathology hindering the transition. It still represents insuperable obstacle to the strengthening and development of formal social, political and economic institutions in post-socialist countries.

Neoliberalism as a philosophy of methodological individualism and metaphor of „reformers“ has proven to be very suitable for building specific and dogmatic theoretical platform, which served as a motto for fast and non-market acquisition of wealth, power, and economic freedom of the privileged, whom alibi-economists often equated with economic „effective owners“. Since the process of enrichment was not innovative, or productive, or inheritance, or of market character, it was a reflection of the extremely rapacious accumulation. Therefore, it is clear that minorities got what population and/or state lost.

Synergistic effect and efficiency of economic institutions is possible only in conditions of economic freedom and effective individual owners as a mass phenomenon.

In modern economic theory and economic reality, quasi-neoliberals have maximally relativized the contrast and paradox (manifestational, apparent, and imposed) between individual and institutional. New front line between them is generated only by those economic neoliberals who easily carry the prefix alibi and quasi, and whose mission is dominantly interest oriented (more or less). Paradox of this combination (value pair of individual and institutional) is just an illusion and delusion of quasi-neoliberals, because in reality their non-exclusivity is actual generator of that combination. Udoubtedly, individual and collective are inseparable components of the most institutional arrangements and overall institutional order in modern developed economies.

We support *institutionalized individuality*, which should be massive, and not a single phenomenon of privileged and/or socio-pathological origin. I am against all forms of vulgarized individuality. Institutionalized individuality involves the application of the value and law criteria.

One could discuss the economic role of the state, minimum limits of rule of law, degree of institutionalization and the like. But justification of the interest oriented individualism (as a source of enrichment, various forms of monopoly, stratification and other negative phenomena) does not make any sense nor developmental effect.

Institutionalized state is developing and protecting private interests. It specifies and protects property rights, economic freedom, contracts and market competition. On the other hand, privileged individualized state (personalized, clearly) develops and protects the interests of privileged individuals. It enables deprivation of property rights, disabling the formation of an efficient ownership structure. It does not guarantee the performance of the contract and economic freedom, hindering the formation of a relatively stable preference system, reducing economic choice, creating monopolies and so on.

Institutionalized state does not know the epithets „minimum“ and „maximum“, while the conditionally “individualized” state is minimum by nature. It is a state that formally exists in all of its functions, but it is called „private“, because it is governed by an individual or small number of interest related individuals. In the first one, institutional (including legal) restrictions are consistently applied to all. In the second one, restrictions are applied selectively (with a few exceptions), which is contrary to the nature of institutions. In the first one there is institutional limitation for all. In the second one there is quasi-institutional limitlessness for the few (privileged). In the first one there is a fixing (specification) the rights and obligations of individuals. In the second one there is feigning, even the inevitable collectivity (referendum, voting, democracy).

Opinions of local analysts can be subjective. Thereafter, we are quoting the latest report of the USAID (“Vijesti”, 29.07.2009. p. 9.), which emphasizes numerous deformations of economic policy makers in Montenegro: poor control and monitoring of the work of the executive power, weak institutions of the government, limited political competition and broad intertwining of political and economic elite<sup>8</sup>, limited publicity of the work of the government, poor implementation of the law, limited access to information, widespread use of personal connections, nepotism and favoritism, corruption as an activity for great gain with little risk, huge conflicts of interests, rigidity in politics and governing. When you add to these, anisotropy of information, negative selection of cadre, advantage given to political affiliation, as opposed to competency and many characteristics of hermetic society (it is still a long way to civil society), it is then clear that the economic policy could not have been much better.

### **Neoliberal imperialism and violence**

From the beginning, the quasi-neoliberal formulas have resembled the elitist, destructive and greedy concept of power, tending to turn into omnipotence, i.e. a total domination (of the few states, parties in power distribution coalitions and privileged individuals). This is a new dogmatic, anti-civilization, anti-formation and

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<sup>8</sup> Compare with: *Acemoglu D. et al.* Institutions and the Fundamental Causes, of Long-Run Growth / Handbook of Economic Growth, Ph. Aghion, S. Durland (eds), North-Holand, 2004.

anti-development formula for maintaining and expanding of specific form of hegemonic order of monopolists and men in power („*restricted access to resources*“ – according to: North, Walis, and Weingast 2009). It can be considered not only economic, political and ideological, but also a moral nature of quasi-neoliberalism, in different dimensions: through the prism of sustainable development, inequality, double standards (accumulation of wealth and extravagance of the few, impoverishment and survival of others), a widening gap between rich and poor, criminalization of society and economy, provoking crisis, etc.

It is often forgotten that social and state control of opportunistic behavior is one of the fundamental institutions. When it fails (or delays), the quasi-neoliberal economic motivation is enabled, and that is equal to „*interest greed*.“ That initiates and maintains the flywheel of vicious elitist urge for rapid acquisition and accumulation of wealth, dominance and total power. Since ideology of totalitarianism and domination is the common denominator of all forms of imperialism, we can make a conditional conclusion that the formation of a quasi-neoliberalism has led to a new form of neoliberal imperialism, which inherited colonial (geographically) and the neocolonial (industrial). Its core consists of pyramid financial and technological-organizational domination, control, addiction and related exploitation. Imperialist motives (interests) and exploitation are two sides of the same process. It is easy to distinguish legally defined economic freedom from freedom of action, with background of immoral, criminal, monopolistic, sociopathological and other quasi-institutionalized behavior.

All barren and irrational rhetorics and favoritism were followed by mythologizing, ideologization, dogmatisation, politisation, vulgarization, monopolization, exploitation and quasi-institutionalization. These are methodological leverages of neoliberal reforms, which essentially contain the social, political and economic clocktrism. In practice, it was severely manifested by applying double standards to the rich minority and the poor majority, illusionist vacillation between myth and reality, between individualism and institutionalism, for redistributing national wealth and achieving massive illegitimate uses.

Using various undemocratic methods, neoliberal deregulation was imposed as non-alternative variant, where private greed, in the best possible manner, motivated insatiable „entrepreneurial“ ambitions and „reform innovations“ of nomenclatures and their lobbyists. Categories and institutions of social capital, such as morality, justice, trust, control, origin of the property, rule of law, democracy, public safety, etc., are ignored.

Neoliberalism did not limit violence in society. On the contrary, it helped its expansion. According to North, Walis, and Weingast (2009) violence include various forms of social pathology: the non-market appropriation of rents, buying votes, corruption, exploiting privileges, coalitions of interests, ignoring the masses, etc.). The above authors have come to the conclusion that it is possible to achieve to political manipulation of the economy in order to build a privileged interest groups and anti-

institutional incentives by political and economic competition. This occurred in the conditions of neoliberal implementation in countries with a policy of „limited access“, where some organizations and groups of elites were pulling the rent due to their privileges and some tacitly „*special rights*“. Those „rights“ are created in an institutional vacuum environments, characterized by personal relations and „strings“. Hence, the order is unstable and volatile, the politics is connected and dominates the economy, a minority (elite) manages the masses, informal and alternative institutions (which are extremely personificated) dominate, and organizational structures are very unstable.

The above authors point out that restriction of access (inequality) is provided by a deficit of the rule of law, insufficient guarantees of rights and freedoms and the lack of competition in the political and economic system. Place in an hierarchy is determined by the position of individuals in relation to the law and the nature of its application. Civil society and democracy are underdeveloped, there is no strong opposition, so there is a partial provision of services by the state. Bureaucracy is poorly controlled and unprofessional. „Elites“ agree on the privileges, which include the right of ownership and access to certain types of activities. Creation and appropriation of rent is the „glue“ that holds the coalition together. This system of organizing society drastically reduces the efficiency of society, economy and politics. It produces deeply intertwined network of corruption, which is most evident in the relation patron - client. Its viability is based on the elimination of strong internal institutional structure.

Realization of the neoliberal project, as a selective and partial quasi-institutional monism, is a reduction of overall economic behavior, from economic activity through competition to motivation and employment. Non-market and violent separation of the population from the property is its de facto separation from economic freedom and the consequent suppression of individualism institutional monism, which favors the creation of monopolies. It fits in theoretical vulgarization of the neoliberal economic model, which is a deliberately premeditated institutional improvisation and imitation, that have caused all these troubles for most post-socialist countries and their economic subjects.

Is it possible that a quasi-neoliberals do not notice the imposed substitution of quasi-market structures, competition to all sorts of ubiquitous monopolies, efficient private sector of the rare nouveau riche, enterprises of rent-oriented and gray-economic behavior, effective social, political and economic institutions of group-individualistic improvisation, ideals of vice, institutional control by party-individual control, objective regulators (rules of the game) subjects („good players“ and their connections), etc.?

Lessons must be drawn from neoliberal failures. Liberalization is not the same as violence against it. Freedom presupposes the absence of restraint, but direct and indirect coercion in neoliberal conditions have been continued in a raw and sophisticated forms.

We came to the conclusion that neoliberalism is merely a *metaphor* that conceptually generates a conglomerated complex and contradictory context, which has its own doctrinal, terminological, institutional, developmental, cognitive, strategic, interest, redistributive, ownership, civilizational, geopolitical and ideological meaning and numerous practical quasi-manifestations. This manuscript is named „Neoliberal metaphor.“ Why? Because

- the term „metaphor“ covers a very wide range of phenomenology of neoliberalism, and consists of many paradoxes, contradictions, scams and myths,
- neoliberalism exists between two levels: rhetorical propaganda for creating an illusion, and practical restraint and control of change and freedom,
- everything is conspiratory and programmed for the purpose of greedy and non-market enrichment and strengthening power, without limits, and
- neoliberalism looks like meta-phor(a) of its creators.

It had been written a lot regarding neoliberalism (for and against it) with various aspects and even that it's dead! No, It is very much alive and continues to live in accordance with the logic of its metaphorical existence (especially in the minds of alibi-neoliberals). After all, it is just a metaphor, just a new name for an old phenomenon, since it identifies the specific regime of modern (neoliberal) capital accumulation and appropriation in terms of institutionally weak state. It is also a monistic metaphor for a „*system with limited access to resources*“ (North, Walis, and Weingast 2009). Everything else is academic discussion, outwitting, apologetics, dishonest, manipulative, hypocrisy, clockotristic and interest talk about freedom and market.

Sophistic stopgap and sophisticated quasi-neoliberal rhetoric and practice have generated original methods of organized use of privilege: rapacious privatization, intercommune economy, economic clockotristism and protectionism against his own people (my terms). Their mission continues in conditions of extremely reduced market and „entrepreneurship“ based on further robbing of the state and reproducing the non-market acquired wealth.

Institutional innovations imply civilization norms, placing economic behavior in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favor healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market - yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behavior, institutional standards, protected and well specified property rights!

Coalition of economic „reformers“, the nomenclature of government and their lobbyists accepted the offered neoliberal „development model“ because these alleged „new elites“ has identified with this new individualistic ideology and a new va-

lue system, which allowed unlimited expression of their personal interests, and thereby quick enriching and creating the power (social, political, party, economic). Their ideals are (temporarily) achieved.

All of this is achieved by applying neoliberal „methodology“ of double standards, sophist stopgap and futile rhetoric. All neoliberals (politicians, economists and others in the government and close to it) say they are democratic, freedom-loving, tolerant, development-oriented, pluralistic in everything, not just in one – they absolutize alleged „neoliberalism“ but they do not see its alternative (thus negating choice as the essence of democracy and economy). Propaganda of „absolute truth“ is always a prelude to apologetics. Everything has an alternative, it is only a matter of time and the conditions for its realization. But, irony of destiny is often paradoxical, as it is in many ways paradoxical neoliberal mission. If not for any other reason, then because of planetary collapse and appropriation of state property by nomenclature „reformers“ and their lobbyists. Only institutional innovations can neutralize party-lobby's structures and can activate missing control mechanisms, rule of law, economic freedoms and efficient instruments of economic policy.

Doctrine of W.C. is based on assumption that the distribution of social and collective action will be enhanced by reforms, and market reform should create benefits to the whole society and that it represents a long-term public good. It is obvious that the *mass* is replaced by privileged individualism. The question remains: How much is the authority, power, monopoly and property been secured by internal „winners“ and how much by external factors? That's the paradoxical situation, explained by L. Thurow (1997, p. 127), which has become a social and economic reality of global and national neoliberal order. Classic replacement of the thesis: instead of national policies governing the economy, they are dictated by external economic forces. Their various assistance were not granted without numerous the *quid pro quo*.

The tragedy of neoliberalism is its actual separation from its scientific and philosophical heritage, which has become a reactionary tool of the elite (class of non-market enriched individuals, who have appropriated the results of many generations) and the ideology of limitless power of big capital and business, which has destroyed the middle class of society, allowing freedom of exploitation.

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# MODELLING OF INSTITUTIONAL CHANGES IN TRANSITION COUNTRIES

Veselin Draskovic, Evgeny POPOV and Kesutis PELECKIS

*The first part discusses the consequences of the deficit of real institutional changes in post-socialist SEE countries, and their substitutions by the various anti-developmental institutional imitations, which essentially had the character of alternative quasi-institutions and were in a function of enrichment for the privileged individuals. It points to the importance of neoinstitutional economic theories (NET), which provide a sound grounds and recommendations for explanation of the imitation changes, which had anti-institutional and anti-development character. Theoretical explanations of anti-institutional changes confirm the conclusion that real institutional changes can not be developed on its opposites, in the conditions of feigning the economic freedom and democracy, the governement stability, and the accompaning development of social pathology. The present paper is dedicated to the formation of a theory of institutional modelling that includes principles and ideas that reflect the laws of societal development within the framework of institutional economic theory. The scientific principles of institutional modelling, increasingly postulated by the classics of institutional theory, are discussed. Scientific ideas concerning institutional modelling are proposed on the basis of the results of original design, formalisation and measurement of economic institutions. Applied aspects of the institutional theory of modelling are considered.*

Transition in the SEE countries was not objectively dependent process, conducted according to specific transformational paths. It has spawned different gnoseological levels, with uncertain criteria for the assessment of human behavior (especially economic), with undefined development objectives and strategies, in the conditions of social and economic instability, and a range of opportunistic behavior. This process did not have a elaborated, complete, and consistent theory that would in a scientific-methodological way to explain the variety of specific and often mutant practical phenomena. One of the dominant phenomenon was the formation of im-

perial rhetorical facade, which has enabled a long-term substitution for developing the material and human values (money).

Throughout the history of society there was an existing development paradigm with the appropriate criteria and value systems, which have always been associated with the interests. However, in most transition countries the neoliberal anti-development (essentially: crisis) paradigm was formed. Its basis was immoral, inhumane, and dogmatic ideology of political robbery (Oppenheimer, 1922). A hegemonic (greedy) order, raised on this foundation was imposed by the nomenclature of government, due to the realization of privileged interests of self-appointed elite. Elitist dirigisme (based on socialist) had a dominant party-state prognostication. It paradoxically appeared on the apologetic criticism of state dirigisme. Proclaimed mass was replaced by privileged individualism. In addition to the many abuses and negative practical manifestations, the paradoxical, ideological and contradiction context of neoliberalism had its doctrinal terminological, institutional, developmental, cognitive, strategic, interest, redistributive, ownership, civilizational, geopolitical, or/and geoeconomic sense (Scekic, Draskovic and Delibasic, 2016).

During the period of post-socialist transition, the whole system of anti-institutional and quasi-institutional factors was established. From the aspect of development these factors had a hindering and destructive influence. Therefore, they had a very negative impact on economic growth. The aforementioned factors had a direct synergy effect on the generation creating an institutional vacuum (in the early stage of transition), followed by the long-term conglomerated unsystematic approaches.

### **Institutional changes and alternatives**

In academic literature, a detailed research was necessary to explain an adequate theory regarding the current socio-economic situation. Many authors, including M. Blaug (1994, p. 650), claim that NET is suitable for that, because it contains pragmatic and multidisciplinary scientific doctrine, which identifies causes and trends of the transition processes and changes. NET deals with institutions, and institutional changes were supposed to be the most important characteristics of transition (Draskovic, 2017; Draskovic, 2017a; Draskovic, M., Draskovic, V., Bilan and Delibasic, 2016; Draskovic, M., Bauk, Streimikiene and Draskovic, 2017). NET is directly linked with the choice of priority ways of regulating the economy and society, which have practically shown great ability of manipulation, imitation, misuse, improvisation and usurpation. All this happened under the cover of alleged theoretical model of neoliberalism. NET was objectively able to explain many transformational pitfalls associated with:

- institutional vacuum,
- transformational downfall (of all economic and social indicators),

- antagonism of social subsystems (political, economic, cultural, ethical, social, motivational, technological, etc.),
- rapacious privatization,
- failed expectations of the people, and
- mythical monistic dogma.

Theoretical interpretations (North and Thomas, 1973; North, 1981, 1984, 1987, 1989) indicate that institutions are generally accepted rules, norms and mechanisms which contribute enabling successful functioning of the organizations, as well as the realization of economic, legal, political and other activities. Institutions have several major functions:

- regulation, coordination and limitation of human behavior,
- reduction of transaction costs,
- assistance in adjusting to the change, minimizing risks, uncertainty and entropy, as well as the rational allocation of resources,
- stimulation and motivation in the realization, and linking economic relations, resources, subjects and activities,
- protection of opportunistic behavior, and
- promotion of economic development.

All formal and informal institutions are always complemented by positive normative acts, which regulate the rights, obligations and permitted forms of economic behavior, as well as sanctions in case of its violation (Sueldo and Streimikiene, 2016, pp. 90-105). When all of this is applied, it becomes clear how and why the main transition processes lost control in most of the transition countries. Specifically, under the pressure of the ruling nomenclature, the radical, positive and synchronized institutional changes, recommended by D. North (1994, p. 79) were ignored. This refers to the changes in the attitude and form of business, ownership, control mechanisms, political and normative regime. That way was disabled not only institutional competition, but also the process of establishing a rational, consistent and overall institutional framework, which is a common denominator and a precondition of all other changes, as well as the socio-economic development.

Nevertheless, the transition preserved some forms of *institutional transformation*. It had an innovative character in the part of transformation and evolution of economic and social order, as well as appropriate transformation and transaction costs. However, instead of eliminating and/or reforming the old (socialist), and building the effective institutions, in the conditions of chronic deficit of the rule of law, numerous *recombinant* forms of quasi-institutional relations were established (paternalism, monopolistic, lobbyism, social pathology, the informal economy, annuity-oriented behavior, dominance of politics over economics, etc). Their common

denominator was the dominance of institutional monism of neoliberal-clan type. Economic development is not possible without an *institutional pluralism* (North, Wallis and B. Weingast, 2009; Ciegiś et al., 2015, p. 106; Drasković, 2014; Erznkjan, Delibasić and Grgurević, 2014).

Civil war, disintegration of the state, political monopolies, and restrictions imposed on the market were main factors for the flourishing of uncontrolled markets. Institution of market regulation in many areas has been dysfunctional. The long-term multiplication of those conditions has led to the creation of the so-called alternative (shadow, parallel) institutions (Drasković, Bauk and Delibasić, 2016). They had destructive and selective impact on the use of economic resources. Furthermore, they prevented not only real institutional changes, but also institutional adaptation, institutional control, and institutional competition. It strengthened the specific forms of total control (Goffman, 1968, p. 41) in social and economic flows by the powerful nomenclature-lobbying clans (administrative-bureaucratic groups - McAuley, 1991, p. 26). Phenomenology of clans rested on the alternative *meta-institutionalization* of highly interest type (i.e. politicians fighting for private rent - Marcouiller and Young, 1995, pp. 630-646; Infante and Smirnova, 2016, p. 216).

Consequently, instead of good rules, some “players” and their “connections” dominated the institutions (Fernandez-Guadano, 2015, pp. 192-200). Public policies (of radical neoliberal type) were directly or indirectly abused - guided by the dominant interests of the nomenclature of the authorities and their lobbyists, which is varified through affirmation of violence in society (North, Wallis and Weingast, 2009). Therefore, they are often marked as quasi-neoliberal. That has deformed and reduced the socio-economic reality (the order), and the overall institutional structure. There was the creation of conglomerate nonsystem (organizational, institutional and normative) was created. In practice, it has manifested through various substitutions.

The market was substituted by monopolies; efficient and massive private sectors by rare and privileged *riche*; the motivation and competition by privileges; entrepreneurship by rent-oriented (Buchanan, Robert and Tullock, 1980) and gray-economic behavior; democracy by party lobbying, nepotism and log-rolling; political pluralism by totalitarianism of the ruling parties and coalitions; institutions in system and institutional vacuum, etc. In such environment, the socialist vices have become ideals. The cultural values were on decline (Vveinhardt and Andriukaitienė, 2015, pp. 205-210). The implementation of real reforms was - nonsense. Economic results were catastrophic. The crisis was still present in many variations.

## **Importance of the NET for explanation of imitation institutional changes in the SEE countries**

Institutional imitations, "misconceptions", monistic illusions, and practical phenomenology of anti-institutionalization could be phenomenologically explained by applying unilateral and interests individualism. It is rhetorically, uncritically and vulgarly glorified through quasi-neoliberal mythology (ideology). Apart from being accompanied by non-market enrichment (tendency of privileged interests of minority), essentially it was conflicting. Apparently it was not based on consistency (mass individualism), but on the privileged (rare, minority) individualism. Such *improvised individualism*, supported by the nomenclature of government, was and still remains the greatest opponent of institutional changes. It has led to many practical abuses and *deformations* (market relations, business environment, competition, etc.), described in the hypothetical "model 23 D" (see p. 53). It has led to institutional nihilism (Ibid., p. 203), which we have tried to explain (Ibid., p. 198) through a simple formula that actually sublimated the essence of transition (neoliberal) fraud (metaphor). It is an extended (approximate) mathematical model:  $Lp + Ha + S = WPI$ , where AR stands for - the loss of people, Ha - help from abroad, S - smuggling and WPI - a wealth of privileged individuals.

Monistic neoliberal instrumentalization and the corresponding quasi-institutional improvisations and operationalisations are still present in some SEE countries, although economic theory and practice strongly verify the indispensable developmental need for the institutional pluralism. On the theoretical level, they are manifested through apologetic elaborations, and in practice through various forms of quasi-sociopathic type. Every monism, apologetics and fetishism in theory are counter-productive because they idealize and mystify the economic reality (Draskovic, 2016).

Neoliberal (in the institutional sense: monistic) "modelling" of economic reality was manifested through the rhetoric glorification of the alleged absolute advantages of private property, entrepreneurial initiative, economic freedoms, effective owners, competition, unlimited markets and so-called "minimal" states. That rhetoric was accompanied by various forms of quasi-neoliberal behavior, which has socio-pathological and opportunistic origin. It was a phenomenological and etymological ignoring of actual conditions in realizing the economic choices, and the causes of great social and economic problems, which were visible to the naked eye, and even distorted by the media (Draskovic, Bauk and Delibasic, 2016).

Essentially, the formal and informal institutions were abused, bypassed, vulgarized and reduced at different interests levels. Through the spread of opportunistic behavior, alternative institutions had parasitical and reversible impact on public policy, significantly obeying the formal and informal institutions. One of the major public policies was macroeconomic, which had neoliberal character and was supported by the apologetics of *profession's blindness* (Krugman, 2009, p. 2). Consequently, there was no formation of the so-called *good institutions*, proposed by D. Rodrik

(2005, 973). As a result, transformational fall (term by Kornai, 1994) from 1991 to 1995 was replaced by *extended transition* (1995 to present).

Modelling of the institutional changes in the SEE countries was strongly impacted by these negative factors. Multiple paradox of neoliberal policies caused the crisis of a system of values in economics and negative selection of the value criteria in socio-economic development. There were several valuable theoretical attempts to highlight the imperative need for modelling of institutional changes in accordance with the recommendations of NET representatives. Some authors have, often critically and competently, written about the great importance of NET in order to explain the reality of transition and some development concerns. A significant suggestion was given by M. Delibasic (2016, p. 152), which refers to the hypothetical matrix model for researching the foundation for economic development, which included the most important *research parameters*: property rights, public choice, institutional pluralism, relationship between formal and informal institutions, level and impact of alternative institutions, relationship between politics and economics, etc.

NET does not deny the basic and universal attributes of homo economicus: rationality, sovereignty (autonomy) in decision making, and choice, subjugation of exact budget (own interests and preferences), acting in accordance with the interests, and in the state of full awareness. However, it puts this behavior in the context of *institutions* as universal norms and rules of behavior that essentially act twofold: restrictively and motivationally. Therefore, the economic rationality under the influence of institutions has manifested as a limited institutional rationality (of pluralist model).

Despite these theoretical findings, analysis and recommendations of NET, in reality it all remained a dead letter, because it was neglected by the nomenclature authority, which was the creator of official economic policy (neoliberal). Regarding a numerous practical problems of “*extended transition*” (delay of real institutional changes) in the SEE countries from the current perspective and through the prism of many previous theoretical analysis that we conducted, we arrive to the conclusion that the modelling of existing (mutant, quasi-institutional) order was created by a privileged nomenclature authority influenced by numerous internal and external factors (Table 31).

In addition to many other consequences (levels 1-5), as major and undoubted result of almost 30 year long transition in the SEE countries are *weak institutions, as well as social and economic crisis* (level 6).

Civilizational path of socio-economic development has affirmed the principles of pluralism, gradualism, synergism, selective universality (in terms of using role models), and democracy. They are opposed to all the forms of absolutism, monism, uncontrolled development, and party determinism.



**Table 31. Factors impacting modelling of institutional structure  
in the SEE countries**

Internal factors			External factors		
↓	↓	↓	↓	↓	↓
Socio-cultural capital	Path Dependency	Public choice	Globalization	Exemplary models (neoliberal ideology)	Geopolitics and geoeconomics
↓	↓	↓	↓	↓	↓
Nomenclatures of authorities					
↓					
1	<i>rapid and indiscriminate demolition of socialist institutions, creation of social and economic non-system (organizational, institutional and normative vacuum), and oligarchical new elite</i>				
↓					
2	<i>continuation of autocratic political regime (the domination of politics), establishing a new monistic system, and government failure</i>				
↓					
3	<i>asymmetry of information, the existence of powerful groups of influence, groups with special interests, active lobbyists, strong bureaucracy, imperfection of the political process, processes of decision making monopolization and the abuse</i>				
↓					
4	<i>organized interests of small privileged groups (in accessing the resources), institutional monism, manipulation and social pathology, practical quasi-manifestations</i>				
↓					
5	<i>opportunistic behavior, alternative institutions, increase transaction costs, violence in the society, deficit of the rule of law, weak and not transparent institutions, social disparities, and appropriate consequences</i>				
↓					
6	<b>Weak institutions, social and economic crisis</b>				

Sources: adapted from Draskovic, 2014; Delibasic, 2016; Drachkovich, M., Drachkovich, V. and Bilan, 2017; Draskovic, M., Draskovic, V., Bilan, and Delibasic, 2016.

However, SEE countries (in the absence of consistent development strategy) have opted for erroneous concepts of institutional improvisation and imitations (rather than creation), rhetoric (rather than implementation and actual change), rent-oriented and narrow-interests type of motivation (rather than profit-oriented and mass-interests), party-controlled institutional environment (rather than transparency).

Therefore, the alternative institutions have strengthened, hindering the real institutional evolution, acting anti-institutionally and regardless of the recommendations of the NET: not stimulating the legal behavior, nor limiting the opportunistic behavior. The outcome of neoliberal type institutional monism has led to numerous problems, inequality, and the ongoing socio-economic crisis.

### **Modelling of Economic Institutions and Institutional Design**

The organisational routines of R. Nelson and S. Winter, the transaction cost theory of R. Coase, D. North's concept of economic institutions and E. Ostrom's institutional design, together with many other concepts, have been extensively referred to in theoretical and practical studies. That being said, no study has been carried out to date that systematises the principles and ideas of institutional level modelling into a single theory. The aim of this study is to develop an institutional theory of modelling – that is, a system of scientific principles and ideas that generalises the experience and reflects the laws of the development of society within the framework of institutional economic thinking.

The systematisation of principles and ideas of the theory of institutional simulation should be carried out consecutively, beginning from the simplest level of simulation, i.e., institutional design, and concluding with the most complex level consisting in a description of the evolution of institutions. For intermediate levels of modelling, the following stages of the modelling approach can be consistently included: systematisation, formalisation, classification, distribution and measurement of economic institutions. It should be noted that economic models include such formal constructions, in which input and output models can be isolated, as well as the presence of a control parameter – in other words, feedback.

By economic institutions, in the interpretation of 1993 Nobel Prizewinner D. North (1990), we refer to the established norms of interaction between economic agents. The monitoring of the implementation of these norms is carried out either by agents themselves, their superiors or according to regulatory procedures.

It is noted that the organisational routines of R. Nelson and S. Winter, widely used in economic modelling (Nelson and Winter, 1982), rely on a similar sense of economic institutions, to which we apply the formalism of the institutional lifecycle (Popov, 2006). An important place in the field of economic institution design be-

longs to the winner of the 2009 Nobel Economics Prize, E. Ostrom. Ostrom examined practices in situations where the state is not able to create institutional arrangements or get them to fully comply with formal rules. The sustainable existence of Ostrom's (2000, p. 148) common-pool resources is possible only in cases where the design of the system for the operation of shared resources corresponds to a specific set of principles:

- presence of clear group boundaries,
- presence and clear specification of local resource-use rules,
- involvement of group members in the process of establishment and modification of rules,
- participation in the monitoring of compliance with the rules,
- gradualist approach to the implementation of sanctions,
- presence of conflict resolution mechanisms,
- minimal recognition of the right to self-organisation on the part of the authorities.

Consequently, the first scientific principle of the theory of institutional modelling should include a provision stating that *the design of economic institutions is based on the implementation of specific formation rules specifying resource use* similar to E. Ostrom's principles of institutional design. The author of this study has developed the model of institutional design of knowledge generation by economic entities on the basis of the principles of institutional design together with the staff of the Institute of Economics of UB RAS (Popov and Vlasov, 2006). When constructing a model of institutional design, the following stages of institutional design have been identified: analysis of the institutional knowledge generation environment; problem statement; goals and objectives; the development, implementation and updating of the institutional project; and monitoring the functioning of the institutional environment.

The first and last stages of the developed model are continuous, indicating that institutional design is a continuous activity. Continuity of institutional design, in turn, determines the flexibility of the institutional environment. The timely detection of discrepancies in the external and internal conditions of the existing institutional environment contributes to its rapid adaptation, while committing fewer resources. Continuity of institutional design also reveals any institutional dysfunction in the initial stages and thus prevents a decline in their effectiveness. The stability of institutional changes in institutions under development depends on how accurately the principles of institutional design are taken into account and complied with.

The model allowed the authors to formalise and precisely detail the stages of institutional design, while providing a platform for reducing the degree of uncertainty in this type of activity, as well as drawing the attention of leaders to the need for accountability and the analysis of the institutional environment when planning

the development of an economic entity. In this way, the author's model of institutional design of knowledge generation business entities is developed on the basis of project management principles and includes such stages as the analysis of the institutional environment (assuming use of the resource indicator of differentiation of knowledge, the institutional atlas model, transactional speed of knowledge growth and the coefficient of institutional development of knowledge generation); formulation of the problem, goals and objectives of institutional design; development of the institutional project (taking into account the principles of institutional design); implementation of the institutional project; its adjustment and monitoring of the functioning of the institutional environment. The novelty of the author's model consists in the systematisation and expansion of the methodological set of tools of institutional design in connection with processes of knowledge generation.

The theoretical significance of the developed model consists in the synthesis of the results obtained as part of the dissertation research with existing management tools that can reduce the uncertainty of institutional design of knowledge-generating business entities. The practical significance of this model consists in the possibility of its use in the analysis and planning of development as a process of knowledge generation as well as in the activities of economic entities in general. Consequently, the first scientific idea of the institutional modelling theory consists in the active development of *business models for the real economy based on the principles of institutional design*, for example for the generation of new knowledge. It should be noted that the practical implementation of the scientific concept leads to the development of methods of evaluation of knowledge generation in the enterprise.

### **The systematisation of institutions**

The most successful experience of the systematisation of economic institutions to date is G. Kleiner's (2003) system-integrated theory of the enterprise. In the system-integration model, all factors (in essence, economic institutions) are divided into seven levels from the mental activities of the participants in the activities of the enterprise to the experience of the functioning of the market. The systematisation of economic institutions can also be based on the market potential model of the enterprise. Elements of the enterprise market potential can be structured according to the four functions of management – planning, organising, directing, controlling – and the three types of activity of the enterprise, consisting of analysis, manufacturing and communications. At the same time, economic institutions can be classified according to their use of four types of resources: human, material, financial, information.

In both models, the institutions are grouped by the criteria of the specific functions that they perform. Thus, the second scientific principle of the theory of institutional modelling can be formulated as follows. *The systematisation of economic institutions should be based on defined system performance criteria, releasing*

*various functions of institutions*, similar to G. Kleiner's theory of levels of functional system-integration or elements of the market potential of the enterprise. What are the possible approaches to the classification of micro-economic institutions? We may note in passing the classification approaches taken by O. Favro's (2000) positioning theory on a two-coordinate plane, O. Williamson's (1979) hierarchical "*objectives tree*" system and G. Kleiner's pyramidal representation of the systematisation factors of the enterprise, etc.

Since the basic characteristics of institutions consist in the exogeneity or endogeneity of their formation and use, and the dissemination of these institutions in the performance of individual employees or the enterprise as a whole, the graphical representation of the microeconomic classification of institutions can be represented in the coordinates "*institutional exogeneity / endogeneity – belonging to the employee / company*" (Popov, 2012). The obtained classification illustrates the fact that all economic institutions are the subjects of evolutionary development. That is, the evolution of micro-economic institutions can be analysed within the framework of institutional-evolutionary micro-economic theory. Only when relying on a science-based formation of the institutional structure of the economic system can the correct economic decisions be taken to ensure the predictability of economic results.

It should be noted that the fruitfulness of the idea concerning the unity of the analysis of economic systems based on synthetic evolutionary theory consists in allowing institutional approaches to be distributed in the field of evaluation of the social sphere of society; in other words, it significantly expands the scope of proper economic analysis. The system classification of economic institutions reveals the saturation, vector and the basic block of the development of institutional economic theory. Thus, the second scientific idea of the theory of institutional modelling consists in *the possibility of classifying economic institutions according to the coordinates that distinguish exogenous or endogenous institutions and whether ownership is concentrated in individuals or groups of individuals*, like O.Favro's classification theory or classification according to micro-economic institutions.

The practical significance of the classification of economic institutions is in the development of techniques for the management of institutional effects. For example, the proprietary methodology for controlling endogenous opportunism in the "principal – agent" system was formed within the given direction.

### **Distribution of institutions**

The distribution model for economic institutions can be presented in the form of a hierarchy of rules according to J. Buchanan. Buchanan (1962), who won the Nobel Prize in Economics in 1986, was not representative of classical institutionalism. However, his researches, devoted to methodological individualism and the evaluation of policy as a process of exchange, largely relied on the institutional

analysis of economic activity. Based on an account of the interests of politicians, Buchanan called for the formation of the constitution of economic policy, i.e., a set of rules that define the restrictions on the activities of certain individuals. We note that neoinstitutional theory of public choice has to a large extent been formed on the basis of the works of J. Buchanan. In other words, Buchanan postulated a hierarchy of economic institutions from the basic institutions in the form of state laws to rules that are guided by individuals. Consequently, the third principle of institutional modelling theory consists in the modelling of the distribution of *economic institutions being possible on the basis of functional data content hierarchy of established norms of interaction between economic agents*, resembling Buchanan's distribution of politico-economic institutions.

The model of distribution of economic institutions in the form of a hierarchical structure consists of an institutional atlas. Since the atlas in the conventional sense is a multifactorial, hierarchical system characteristic of the object of study, the institutional atlas under the framework in this work will involve a summary classification of institutions, which combines several types of systematisation of these institutions according to various criteria. The hierarchical systematisation of institutions is possible according to the following criteria: place of origin, areas of expertise, control functions and areas of activity. Endogenous institutions can be distinguished from exogenous institutions according to place of origination, with the former arising inside of the object and the latter formed outside of the object. It is expedient to distinguish between institutions (e.g. development institutions) in terms of areas of knowledge, i.e. social, technological, economic, political and cultural.

Institutions of planning, organising, stimulation and control can be distinguished in terms of their control functions. Norms of interaction between economic agents may be divided according to areas of activity into the institutions of production, distribution, sale and consumption. The above systematisation criteria form an atlas of institutions of development in which they are presented in a certain order. Hence, the third scientific idea of institutional theory of modelling consists in the distribution of *hierarchical institutions be capable of representation in the form of an institutional atlas, structuring institutions according to the function of fulfilling norms of interaction between economic agents, similar to the formation of an atlas of institutions of development*.

The selected research idea was aimed at developing methods for determining weaknesses in the institutional structure based on a comparison of actual and theoretically possible institutional atlases. For example, a study conducted by the Institute of Economics of UB RAS in 2008-2009 revealed a lack of development of the system of development institutions in the Sverdlovsk region, especially in the areas of institutions of planning and promotion.

## Measurement of institutions

At the basis of the measurement of economic institutions is 1991 Nobel Economics Prizewinner Ronald Coase's theory of transaction costs. The introduction of transaction costs allowed Coase (1937) to designate the boundaries of the firm from the in-house comparison and market costs, as well as the need for the intra-firm planning of economic activity. In his famous article "The Nature of the Firm", he wrote: *"In a system based on competition, there must be some optimal level of planning. This is due to the fact that the company, being a small planned association, could only continue to exist in the case of fulfilment of the coordinating functions at a lower cost than those that are required in the implementation of coordination by market transactions, and if these costs are lower than those costs in other firms. To have an effective economic system, it is not only necessary to have markets, but also for there to be planning within organisations"*. Thus, R. Coase has established the relationship of the institutional structure and transaction costs. Hence, the fourth principle of the theory of institutional modelling is that the *institutional structure of the economic system can be measured by the cost of transactions in the formation and maintenance of given economic institutions*, in like manner to Coase's assessment of transaction costs of institutions of the firm.

K. Arrow (1961) defined transaction costs as the operation costs of the economic system. Arrow compared the action of transaction costs in the economy with the effect of friction in physics. On the basis of a similar assumption, the inference can be made that the nearer the economy to the general equilibrium model, the lower the level of transaction costs obtaining in it, and vice versa.

In the interpretation of D. North (1991), transaction costs *"consist of the costs of assessing the useful properties of the object of exchange and the costs of ensuring rights and coercion to comply with them."* These costs may serve as a source of social, political and economic institutions. Based on the representations of K. Arrow and D. North, we assume that the economic valuation of the institute consists in the transaction costs relating to the formation and maintenance of the established norms of interaction between economic agents. This position can be the formulation of the fourth scientific idea of the theory of institutional modelling.

It should be noted that the transactional theory of economic institutions can be formulated on the basis of the above considerations, which includes the ability to model the transactional functions. An analysis of published studies on the introduction of the function of transactions shows that, apparently, a clear representation of the form of such a function can be based on the classical definitions of the essence of transaction costs, with the developed relations being verified subsequently. The classic definition of transaction costs belongs to T. Eggertsson (2001): *"In general terms, transaction costs are the costs that arise when individuals exchange ownership rights to economic assets and enforce their exclusive rights."*

However, he also notes that a clear definition of transaction costs does not exist, since in neoclassical theory there is no correct determination of the production costs. R. Matthews proposed the following definition: “*The fundamental idea of transaction costs is that they consist of the costs of drawing up and conclusion of the contract, as well as the costs of supervision over compliance with the contract and ensure its implementation, as opposed to production costs, which are the costs of the actual performance of the contract*” (Matthews, 1986).

Recent definitions allow three key dependencies of transaction costs to be derived from the parameters of economic systems. According to Eggertsson, transaction costs are directly proportional to the number of economic agents entering into contracts with each other. However, in accordance with the definition of Matthews, transaction costs are inversely proportional to the number of contracts and established norms that ensure the implementation of these contracts. If we assume contracts to refer to formal institutions, but norms ensuring the implementation of these contracts are understood as informal institutions, it is possible to qualitatively simulate the dependencies of transaction costs on major institutional parameters of economic systems. In this case, the exogenous firm transactional function will have the form of transaction costs proportional to the number of counterparties of the firm and data costs inversely proportional to the number of formal and informal institutions that ensure the relationship between the firm and its counterparties.

The object of the theory of transaction costs is to explain the problems of the effectiveness of certain economic transactions in a specific institutional framework, i.e. the ability of different organisational forms to carry out effective planning and implementation of economic goals. The basis of this theory is the assumption that any action in the economic context is primarily due to costs. In general terms, transaction costs are costs that arise when individuals exchange ownership rights to economic assets and ensure their exclusive rights. Like other costs in economics, transaction costs are opportunity costs; as such, they can be either constant or variable.

R. Matthews (1986) proposed the following definition: “*The fundamental idea of transaction costs is that they consist of the costs of drawing up and conclusion of the contract, as well as the costs of supervision over compliance with the contract and ensure its implementation, as opposed to production costs, which are the costs of the actual performance of the contract*”. Therefore, in accordance with Matthews’ views, transaction costs are all non-manufacturing costs met by business entities. Among the various activities that require certain transaction costs, Eggertsson (2001) included a number of non-production costs. At the level of the firm, a determination of transaction costs may have a strict quantification.

The main feature of the separation of transaction and transformation costs is the type of operation that is applied to resources, leading to the appearance of various costs. Thus, transformation costs appear as a result of the transformation of resources. According to the definition of transformation costs, the transformation of resources can be seen in terms of a physical change to the material. Transaction costs are



incurred as a result of the exchange of resources. Resources in this case do not change their physical characteristics; however, a reallocation of property rights may take place in this connection.

In terms of an alternative attribute of allocation of transaction costs, it is possible to refer to the nature of these costs. Thus, if the costs arise as a result of uncertainty, the bounded rationality of individuals or opportunistic behaviour, they can be attributed to transactions. In this case, transaction costs consist in the loss of the presence and actuation of the factors listed above, as well as the attempt to anticipate them, i.e., as losses due to risk and costs of insuring risk (Knight, 2003). The attributes discussed above make it possible to divide the transaction and transformation costs, but requires a more specific division of the costs in order to support an analysis of the transaction costs of the production plant. Transformational and transactional costs should be contained within in a single system of organisation of production, in which both the former and latter are strictly defined. This need is due to the necessity of accounting and analysis of transaction costs.

The analysis of types of transaction costs in the organisation allows the formulation of an algorithm of allocation of transaction costs as follows:

- determine key activities in the organisation;
- determine which types of resources are converted into which products within the core business;
- determine the type of process to which costs are allocated;
- if the costs are the costs of the main process, determine whether the costs are costs of transactional areas using a sign of the type of operations performed on resources and the nature of the costs;
- make the final decision about the type of transaction costs. The authors' algorithm of the calculation of transaction costs permits the obtaining of the empirical dependency of the dynamics of publication activity and scientific mobility on changes in the transaction expenses of academic establishments.

### **The evolution of institutions**

A significant number of foreign and Russian studies are devoted to model representations of the evolution of economic institutions. To the prominent domestic developments should be included V. Polterovich's reform theory, B. Mayevski's macrogeneration theory and the self-development theory and systems of A. Tatarkin. Polterovich's (2013) reform theory describes the optimal sequence of the development of the institutional structure of society with the implantation of economic institutions from the outside in terms of avoiding the formation of institutional traps. B. Polterovich's creation of the theory of institutional traps (Polterovich, 1999) enabled the effects of reforms of the Russian economy to be modelled and forecast.

On the basis of the principles of coordination, training, cultural inertia, hysteresis and other effects of the formation of institutional traps, an evaluation of the application of certain economic innovations became possible: for example, the well-known position of Polterovich against the introduction of mortgage banking in the Russian context in favour of the introduction of savings and loan banks. This position was articulated prior to the introduction of mortgage lending in the Russian practice of housing construction. However, the mathematical evaluation of the expected results was carried out precisely on the basis of institutional modelling.

V. Mayevsky's and M. Kazhdans (1998) theory of macrogenerations is based on a modelling of the cyclic changes in gross domestic product due to the cyclic introduction of new technological innovations in the real economy. The theory of microgeneration is based on the principle of evolutionary change in the institutional structure when implementing innovations. The general principle uniting the theory outlined above consists in a modelling of the evolution of economic institutions based on a consideration of resource potential and forming the institutional structure of the analysed system. Consequently, the fifth principle of institutional modelling theory comprises a simulation of the possible evolution of institutions on the basis of a formalisation of resource potential and existing institutional infrastructure of the economic system, similar to the modelling approach of Polterovich's reform theory and the theory of macrogenerations of V. Mayevsky.

We note that the core institutional description of economic systems consists in the evolutionary nature of the institutional structures. In this sense, the contemporary institutional theory is closely aligned with the evolution of economic theory and can thus be considered as forming a single entity – the institutional-evolutionary theory. At the same time, the results of an empirical study revealed a graph of the evolution of a number of economic institutions: the family and life experience of workers, informal relations, corporate culture, communication out of work hours, the personal appearance of the workers, licensing and training of workers, professional education, research activities, innovation, automation, enterprise management style and realisation of production.

Those factors controlling the evolution of economic institutions include endogenous factors – the life cycle phase, area of activity, period of existence, number of employees, percentage of coverage of employee job descriptions – as well as exogenous factors – the impact of external authority and control of the frequency of the company activities (Popov, 2006).

**Table 32. Principles and ideas behind the theory of institutional simulation**

<i>Level of modelling</i>	<i>Scientific principle</i>	<i>Scientific idea</i>	<i>Application</i>
Design institutions	Compliance with rules of formation that describe the specification of the use of resources	Modelling on the basis of principles of institutional-functional design	Methods of institutional-functional knowledge generation design
Systematisation institutions	Simulation based on the criteria of system performance, which delineate the various functions of institutions	Classification according to coordinates “exogeneity / endogeneity of institution and ownership to individuals or groups of individuals	Procedure for control of endogenous opportunism in the “principal – agent” system
Distribution of Institutions	Modelling based on a hierarchy of the functional filling of established norm data	Hierarchical distribution in the form of institutional atlas, structuring institutions according to established norm data functions	Methods for determining weaknesses in the institutional-functional structure
Measurement of institutions	The institution-functional structure of the system measured in terms of transaction costs	Economic evaluations of the institution consisting in transaction costs	Methodology allocation of transaction costs in the financial statements
Evolution of institutions	Modelling on the basis of the formalisation of the resource potential and existing institutional structures	Modelling of the impact of exogenous and endogenous factors on the dynamics of changes in institutions	Economic-mathematical models of evolutionary processes

Hence, the fifth scientific idea of the theory of institutional modelling consists in the fact that simulation of the evolution of economic institutions is possible by evaluating the impact of exogenous and endogenous factors on the dynamics of changes in these institutions, by analogy with the study of the control factors of the evolution of economic institutions. The applied use of modelling the evolution of

institutions is connected with the development of economic and mathematical models of evolutionary processes.

The authors of this study have developed an analytical model of the evolution of economic institutions on the basis of the mathematical apparatus of diffusion processes based on previously obtained empirical results of the study of temporal changes of transaction costs. The exact solution of a diffusion model of the evolution of economic institutions suggests sinusoidal dynamic changes of transaction costs and reducing the value of these costs at the end of the life cycle of the economic institution. The solution of the developed model confirms theoretical hypotheses about the wave-like dynamic of the transaction costs and existence of life cycles of economic institutions. The scientific novelty of the developed model consists in an analytical representation of the temporal dynamics of transaction costs, receiving a partial graphical representation in the works on evolutionary economics of R. Nelson and S. Winter. The table 32 below shows the basic principles and ideas behind the discussed theory.

The process of transitional development began long ago. However, most countries in transition still lack the environment for a satisfactory response due to destructive tendencies, which dominate over creativity. A high price has been paid for neoliberal failures and greedy experiments of self-proclaimed „visionaries“ related to the deficit of legal state and surplus of authority over the people.

Successful implementation of transition depends on the existing social, economic, political and institutional conditions and constraints. Good results are possible only through positive change of values and corresponding mindset and behavior in terms of civilizational achievements. This progress is contrary to dogmatization, absolutization, mythologization, improvisation, self-regulation and monistic choices. Unfortunately, distributional coalitions have created enormous wealth by carteling, and substituting the promised markets by monopolist quasi-competition, and unlawful ways of appropriating the state property and/or rent. They have developed a parasitic influence on public policy. That way, the party in power determines an institutional matrix of the state, politics and society.

Thus, the formation of the theory of institutional modelling as a system of scientific principles and ideas as part of the institutional economic thinking has allowed the following theoretical and practical results to be obtained. Based on the research of previous foreign and Russian scientists, the scientific principles behind the rules of constructing institutions in the design phase are highlighted, modelling on the basis of a systematic presentation of the criteria of functionality, modelling based on the hierarchy of institutional functions, measuring the institutional structure of transaction costs, modelling based on the formalisation of the resource potential and existing institutional structures.

Based on the author's developments, scientific ideas of modelling based on the principles of institutional design are formulated, institutions are classified according to the coordinates “exogeneity / endogeneity – worker / enterprise”, a hierarchical

distribution of institutions in the idea of institutional atlas is carried out, economic institutions are evaluated according to transaction costs and modelling of the impact of exogenous and endogenous factors on the dynamics of changes in institutions is presented.

The application of the theory of institutional modelling techniques is gained in the institutional design of knowledge generation, management endogenous opportunism in the “principal - agent” system, identifying weaknesses in institutional structures, allocation of transaction costs in the financial statements and economic-mathematical models of evolutionary processes. The formed institutional modelling theory is an effective method for investigating the laws of society from the standpoint of institutional economics.

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# THE REAL INSTITUTIONALIZATION AS A CONDITION OF THE ECONOMIC DEVELOPMENT

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*During the period of the post socialism transition, the whole system of the inhibiting factors has been working and caused forming conglomerate system disfunctionality. The mentioned effect was synergetic and destructive. The combination of a global and local factors gives the modern financial and economic crisis a specificity and uniqueness. The aim of this paper is to point to the urgent need of the consistent anti-crisis economic policy creation, which must take into account local and global crisis and risks factors. This article discusses the influence of real institutionalization on the quality and efficiency of the economic policy. It points out at a primary significance of institutionalization on economic policy as well as on a destructive effect of pseudo-institutions on economic policy and valorisation of economic resources. Departs from the hypotheses that the creation efficient anti-crisis economic policy requires a correct and timely identification of the problems and crisis process, formulating their monitoring, defining the necessary measures and creating a development strategy, which should be based on innovative-institutional modeling. The starting point in the paper is a hypothesis that the combination of global and local factors immanently reduced the critical mass of the propulsive developing factors in the post socialism economies of the and seriously damaged their forthcoming economical growth and development. In addition to this, the article is providing evidence that monistic pseudo-market reforms in the period of post-socialist transition haven't succeeded in compensating for a vast institutional vacuum, and that they have even led to its spreading and turning into a quasi-institutionalization.*

**M**ost of the SEE countries are characterised by post-socialist transitional economic systems with deep problems, deformations, and disproportions, which have been deepened and complicated even more by global economic crisis. These consequences are results of erroneous economic policies and nonexistence of consistent

developmental strategy and they also represent the focus of threatening crisis. Certain decision makers of economic policies, in the midst of unprecedented state interventions, are glorifying neoliberalism (thanks to which and on which waves they most probably came to power). They are forgetting that significant donations from abroad, direct foreign investments and loans are not the result of neoliberal economic successes but of a concrete politics of the West towards the region.

Dialectics of economic development has verified the necessity for resource-allocation, organisational, innovative, motivational, institutional and information combinations as well as pluralistic functioning of all economic, political and other institutions. It is not the problem when economists are making mistakes, but when (if) they make mistakes on purpose because of different interests, especially if their interest ambitions can actively influence the actual economic politics, with accompanying „*opportunistic ignorance*” (G. Myrdal). This leads to promotion and realization of own choices, with which one is to maximise personal gain at the expense of somebody else's (and with which somebody else's choices are reduced - Draskovic, 2008a, s. 5). Non-alternative *interest one-sidedness* is seen in performances of many economic politics in the SEE region and is characterised by paradoxical domination of socio-pathological brake system of anti-developmental, privileged and monopolistic interests, in which the notion of origin of property has been *persona non grata*.

There is no doubt that the profound factors of the economic development, besides the geographically-resourcing, innovatively-technological and socio-cultural, are institutionally-evolutional ones. The institutions as a set of formal (defined by the state) and informal (slow changing) rules directly and indirectly determine the type (form) of the economic system and the direction of economic development, through the impact on the level of transactional and production costs, together with the applied technologies (North 1990, p. 36). Consequently it is clear why they are in the focus of attention (theoretically and practically) in all post socialism countries. But, it is unclear why there were a little knowledge and papers about them at the beginning of the SEE countries transition. The economic institutions are always created by the people, who realize certain administrative, economic and/or other business functions in the society. The institutions are only the rules of the game. They differ from the organizations as the groups of people with the joint goal functions (firms, syndicates, political parties, government bodies, etc.). The people formulate or not the quoted rules. They accept them or not, applied them or not, usually they avoid, modified, ignore them, and create quasi-institutions, which they often glorify.

There is no matter how versatile modern theoretical approaches are, and how frequent considering of the institutional problems of the economic growth and development are, the questions of the concrete contents, of the dynamics and improvements of the economic institutions, and especially of their functional applications in the traditional economics of the SEE countries do not have deep and complex basis, nor satisfying analytical and practical answers, up to now. All is reduced to the descriptive scientific approach. This was in a way the initial hypothesis for formulating the subject matter of this paper. They consist in an attempt of identifying real and

concrete reasons of reproducing the institutional vacuum in the transitional economics of the SEE states. Simultaneously these are the reasons of the clash between the formal rules and their slow and weak usability in the practice. Though, this paper attempts to explain: a) the essence of neglecting the real institutionalization in the post socialism countries, through the identification of the quasi-institutionalization model and the short analysis of the mentioned reasons, and b) the paradox of the established phenomenon that the institutions as the rules and constraints became the barrier for their unlimited avoiding and quasi-institutionalization.

### **Disinvestment and anti-institutional economic policy**

Economic development of post-socialist countries of the SEE region is based on permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neoliberal recipes of macroeconomic politics. The latter one has been extremely motivated by interests of insatiable appetites of state nomenclatures, which represented the main obstacle for institutional changes, apart from noticeable socio-pathologic milieu. All of this resulted in long-term destabilisation of economic systems through disinvestments and spilling over of positive effects in spending instead of production. *Institutional innovations* are, when it comes to timing, structure, quality, quantity and functionality, undeveloped compared to other transitional changes, instead of being their foundation, stimulant and a guarantee.

There was a big gap between formally established economic institutions from foreign economic policies and economic behaviour in practice, which was far from standard norms. A *strategic significance* of practical institutional innovations was disregarded as well as their *priority role* compared to economic politics. Vulgarized individualism was imposed by certain „*skilful and capable entrepreneurs*” („*efficient owners*”) as a social and civilizational norm. Such *reduced individualism* (of the privileged) became very fast a foundation of formal *institutional monism* as theoretic and ideological basis for neoliberal economic politics (which resembles economic „*Reseller Fog*” i.e. „*selling of nothing*” – without consequences for sellers). The main cause of the mentioned phenomenon is a paradoxical need for the public economic policy to serve private interests.

A complete distrust in the institute of state regulation is neither logical nor productive and is not appropriate for increasing IT, production, innovative, financial and civilizational integrations. Wrong post-socialist economic policies in the Balkans contributed to creation of a specific brake and crisis transitional model „23d” (see p. 53). The above mentioned model „d” is characterised by functioning of „*rapacious country*”, which substituted the „*country of development*”, which eroded the socialist institutions and which created an institutional vacuum. This has enabled the initial rapacious mass privatisation and later on the so called „*privatisation of gains and nationalisation of losses*” (May 2008, p. 7).

Populist and paternalistic tendencies are not avoided and the only unclearness is to which extent they compensated the primitivism of rapacious trends, monopolisation and criminalisation of SEE economies, accompanied with reduction of institutional changes (innovations), of economic freedoms and healthy market competition. One of indicators of unsuccessfulness of post-socialist economic policies in the region can be a high level of systemic, political and economic risks, which are the best illustrated by high interest rates, cautiousness of foreign investors and enormously low prices when privatising companies, hotels, banks, land and other property. A theoretic approach implies state regulation of economic policy measures in all cases of inefficiency of market regulations, when economic growth and sustainable economic development are endangered. Since this type of interventions did not happen in the last two decades, the economic policy in that period cannot be called, at first glance, crisis policy.

However, the practice shows something different: complicating of economic problems, erosion of state property and its decantation into the ownership of rare individuals (*making of illegitimate profit*), drastic social stratification and pauperization of citizens, high unemployment and fictive employment, flourishing of black and grey market, erosion of trade and industry and so on. A recombined regime was created. It is a system in which the economic policy resembles marionette of certain political parties and individuals and which serves, as it seems, only for preservation of power and increase of property of few. Since institutional solutions did not work, the responsibility should lie with those who create government policy (economic and other).

Even before the global economic crisis, the economic policy of small and less developed post-socialist countries refracted in the prism of different shapes of economic assistance, direct foreign investments, creation of conditions for Euro-Atlantic integrations and for foreign trade relations in which import component dominated. Overcoming crisis and propitiating of its consequences depends on the right choice of anti-crisis measures of economic policy, which have to be directed towards overcoming of limitations of economic growth and development. It is impossible to unify the list of mentioned measures, which is different from country to country and has different priorities that depend on the level of a reached economic development, specificities of certain industries, indicators, consequences and different level of crisis of a certain economy.

Rational anti-crisis economic policy has to be based on:

- consistent developmental strategy,
- implementation of defensive measures which will, as a priority, take into consideration the so far mistakes, ecologic limitations and social requirements,
- maximal support to civilizational innovations in the area of technology, organization, regulatory mechanisms, political, economic and social relations, saving and rational allocation of resources,
- modernisation of state regulations, as the main institutional innovation,

- development of human resources, and
- change in the way of thinking and behaving.

Institutional innovations imply civilizational norms, placing economic behaviour in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favour healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market - yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behaviour, institutional standards, protected and well specified property rights! Only institutional innovations can neutralize party-lobbystic structures and can activate missing control mechanisms, rule of law, economic freedoms and efficient instruments of economic policy.

### **Obstructive mechanism of economic development of the SEE countries**

Mouths of politicians and some economists from the SEE countries are full of optimism, promises of a better future, accession to the EU and the expected economic growth and development. Is it realistic in the current environment, where economic and social crisis are being reproduced for decades and their causes are being sought in between global-regional-local levels? Those who are responsible for economic development have not contributed much to it, on the contrary. Nomenclatures of authorities have increased the degree of dominance of politics over economy, followed by democratic rhetoric. In this way, the lobbyists created the so called „*concealer's economy*”, with new economic elites, controlled by political elites through log-rolling and other methods. These quasi-elites, supported by the apologetic, quasi-intellectual elites reinforced their power and they represent the main obstacle to institutional and other changes. Instead of pursuing the real institutionalization, violence against it was carried out, under the banner of spreading of individual freedoms. The fact that when freedom lacks moral, legal, environmental and other social restrictions, greed becomes the boot drive for the enrichment of individuals at any cost was forgotten. Economic behavior in practice is far from the regular norms and rules because it is controlled by subjective regulators. Distorted and reduced individualism is being imposed as social and civilization norm. (V. Draskovic, M. Draskovic, 2009a, pp. 22-25).

Interest motives of quasi-elite dominated over rational economic and social choices. Paradoxally, the reduction of economic theory and practice has become a basic methodological tool for the suppression of institutionalization, particularly in terms of institutional competition. There was an excessive impoverishment of the people and the enormous enrichment of the minority, the destruction of the middle layer,

the concentration of political and economic power and the continuation of authoritarian tradition. The existence of interest-based and other types of bonds between political leadership and newly established „businessmen” is beyond any doubt.

The grey economy flourished simultaneously with armed conflict and economic blockade. The consequences are incalculable. The system of social values is disrupted. Party affiliation, authority, eligibility and belief instead of professionalism are being forced rather than creativity, knowledge and science. Negative selection of personnel, criminalization of economy, corruption and a range of socio-pathological phenomena flourishes. The rhetoric of change is substituting the real change – civilization change, institutional change and other. We are sinking into apathy, lower standard of living and growing uncertainty. A vicious obstructive circle is created.

In these conditions, a consistent development strategy and a successful economic policy cannot be created or implemented. All conceptual elaborations are being blocked and modified through political decisions and choices that are motivated by the interests of the creators of „reforms”. Coping with economic and ideological myths and stereotypes continue to fail. Real need of institutionalization and institutional complementarities are being ignored as well as the development of science, education, public interest, effective owner as a mass phenomenon and an efficient economy. Sustainable development is being delayed as well as creation of competitive skills and competences etc. Detailed analysis would create even darker image of the present and the future of the SEE countries. The past was also a crisis. The crisis began back in socialism.

The transition in the SEE countries was followed by nationalism, war, war circumstances and the economic blockade. Infrastructural, economic and market links in the region collapsed. The „reforms” began with inexplicable, illegal and automatic conversion of public property into property of the state. Ownership transformation was further carried out through reassigning of state resources through various methods in favor of the rare and privileged individuals. Simultaneously, the dependence on foreign “teachers” and other debt increased. Gradually, to the greater or smaller extent, Buharin’s prophecy of the modern form of slavery was being realized, as well as Lenin’s doctrine of imperialism and the Kondratjevlev’s theory of cyclical economic dynamics.

Post-socialist transition in the SEE countries was conducted as a Velvet Revolution and as a response to the socialistic tyranny (the party, goals, slogans, promises). However, the recombination of old and new form of tyranny was being enforced. New and larger problems, contradictions, crisis, poverty, disintegration and uncertainty occurred. Socialist vices were packed in new, more dangerous robe. The common denominator of socialist and post-socialist economic and social problems in the SEE countries is the institutional vacuum dominated by disrupted market institutional monism. Proclaimed competition is replaced with various forms of monopoly.

## **Ideological and mafia-style „alternative institutions” system**

The economic development of post social countries of the SEE region has been against the background of permanent controversy between rhetoric on pluralist institutional changes and monistic application of neoliberal recipes for macroeconomic politics. The latter was extremely interest-wise motivated by insatiable appetites of the government nomenclatures and their immediate surroundings. The paradoxical need for having the public economic policies serve the private and party interests was and remained baleful. It represented the main obstacle to institutional changes, in addition to the prominent sociopathological milieu. It all resulted in a long-term destabilisation of economic systems, through lacking investments and the recasting of positive effects into consumption instead of production. In literature, we can find hypothetical economic theories, interpreting and revealing politics as an imperfect process of interchange: Buchanan's theory of social choice (regardless of the basic motif related to the negation of state control efficiency), economic theory of politics and economic theory of bureaucracy.

It is about the study on political market, in which greedy individuals implement their interests, unable to fulfil them in regular market interchange. It has been proved that political decisions have a great impact on the allocation of resources. In a „natural“ way, by the logic of organized interest of the small, privileged and lobbying groups, political government passes into the hands of political leaders being their representatives. Through activating the mechanism of privileges, in time, their insatiable economic interests become fulfilled and great latent groups exploited (collectively alienated individualism, massively liberated from real and advocated economic freedoms).

Apophatic (Greek *Apofazis* - „negative”) transitional economies of SEE in literature are mainly associated with „inefficient institutions“, „irrational individual behaviours“, „abnormal banking system“, „insufficient market discipline” and similar. The causes are mainly searched for in some general academic statements and characteristics, lacking the phenomenological examination of the problem roots, although they are visible to bare eye and pretty much unveiled by media. By their silence and inactivity (with some rare honourable exceptions) the academic sphere acts as their spiritual accomplice in all the negativities in question.

On the other hand, being loud apologists, they would provide dogmatic interpretations for anything. Half a century ago, in a famous discussion on the publication of the political economics textbook, J. V. Staljin (being as he was) correctly named it by an impolite term, the least rude substitution of which would be „thrashing”. The reason for apologetics at that time was fear. Today, the reason for apologetics is demonic enrichment and efforts to secure the networking and lasting power (political, economic, social, scientific and other) and an unimagined paradise. Certain economic authors of neoliberal post socialist reforms, as a monument for their works and „successfulness”, in addition to being rich, also made their own (private) univer-

sities and faculties (together with political mentors and messiahs), and still emphasising that they have set up their „schools of economics”!

In post-social period, the alternative institutions system has been created. It comprises various sociopathological creations, grey economy, endurance in the application of wrong monistic recipes of neoliberal „shock therapy“, compensating for the strictness of formal rules by their non-performance, corruption, attenuation of property rights, formation of various behaviour stereotypes, actuation of informal behaviours (spreading institutional conflicts) etc. The effects of the alternative institutions system were especially visible in numerous examples of the grabbing privatization, which still hasn't been completed in most of the SEE countries. And being conducted hastily and unevenly, it resulted in the enrichment of a minority at the expense of the vast majority of common people. In addition to this, it is quite clear that the newly enriched privatized only what common people lost; since the wealth neither comes from nowhere nor without reason (work, knowledge, innovation, heritage etc.), nor from abroad. The consequences are intimidating, we find them every day in media, where their real causes could be named and perceived, pretty much matching the clarification of the title. Institutional changes in SEE countries were transitory, structurally, qualitatively, quantitatively and functionally falling behind other transitional changes, instead of being their support, stimulant and insurer. There was a huge gap between formally established „alternative” economic institutions and economic behavior in practice, which was far away from regular norms.

Many market institutions were not formed, including even some of its main segments. Also, market infrastructure and culture were not significantly improved. Integral market is still a figurative noun. Many market substitutes routed, mutant and pseudo-market structures of alternative type. They just imitate market infrastructure. Flea market, black, grey and quasy-market (which are in function of surviving for most of the population), and monopolies (which are in function of beneficiating minorities). Competition is reduced on above mentioned primitive market structures. All of the market relation analyses in most of the SEE countries show that monopolies fully used all the chances they had. Turning the essence of institutionalization upside down as the social-economic „technology”, using it's basic characteristics (subjectivity to manipulation, lack of „project documentation”, delivery deadlines and guaranteed quality of the final „product”), quasi-reformers and quasi-institutionalists, supported by the postulate of methodological individualism (also a part of neoinstitutionalism!), put the individual „efficiency and rationality” above the social.

Then, by various methods and procedures, they transferred a significant part of the social (state) property into private. In this two-decade process, many of the state institutions failed, primarily state control and examining of the property origin. Neither practice nor numerous theoretic studies do point to the massive economic efficiency (as the target function!), justification and consistence of the conducted privatization that has been following the „naive” (privileged and of a dominant interest) and still actual shock strategy for the institutional transplantation of the allegedly western and institutionally monistic „role models”. The analyses of specific data on



the privatization results or e.g. private sector efficiency growth compared to GDP, confirms our estimate, as well as the lines by P. Murrell (1996, p. 31) saying that it is „*the most dramatic episode of economic liberalization in economic history*”.

The out-of-the market enriched individuals standing among the post-socialist „reformers” today, from their position of easily gained power, arrogantly, vainly and unconvincingly provide explanations on the reasons of the failure. Those meaning well are clear that the implementation of any kind of codes of conduct can be multivariate, depending on the institutional and cultural environment factors, but primarily on the way the dominant political interests are implemented by the ruling party (or coalition). This is pointed out even within the opening lecture of economic textbooks regarding the domination of the politics over economy. The „institute growing” strategy (Polterovic 2001) doesn’t fit in here. On the contrary, it is being absolutely annulled by the „*alternative institutions*” system. The causes are always the same – politics and interests, and the reproduction methodology of institutional dysfunction („alternativeness”) as well (paternalism, nepotism, passivity, tradition to obstruct legal norms, possibilities for safe and well-organized manipulations and compensations, log rolling, lobbying, rent-oriented behaviour etc.)

Is this why the grabbing practice and apologetic economic theory have destructively rejected the Hegel’s saying that institutions are the “*firm foundation of the state*”? The state was simply treated as public property that needs to be devastated, reduced it to the minimalism (so called „*micro state*”), since this is the precondition for the rapid enrichment and long-term preservation of the wealth gained that way. Under the stated syntagm, the economic radicalism was conducted; therefore it’s not a surprise to have such extremely poor outputs of the state regulations institute in the period of transition of the Balkans states (and not only them). Following J. Buchanan, there are more and more opinions that political competence is not regulated through the election rules and that politicians compete for gaining private rent (Earle et al. 1996, p. 632).

The SEE states haven’t been an exception. Nominally (formally) there are democratic and economic institutions. Unfortunately, they only serve as a folding screen for exercising and fulfilling the interests of the distributional coalition, consisting of certain members of the government nomenclature and their close and devoted newly enriched „businessmen”. They are often said and written to be related with mafia structures. These new “*elites*” are not interested in the strengthening of the infrastructure and institutional power of the state, society or economy. They created the system of „*alternative institutions*”.

That way the market is being cartelized and, like a parasite, it develops back-influence on public policies, substitutes the promised competitive and integral market with monopolistic quasi-competition and illegal ways of privatizing state property and/or rent. Individuals „create” enormous wealth and enlarge it to the extent threatening to in, various ways, compel the vast majority of the population. Their networking, both formal and informal power is being replicated and it disables the

realistic institutionalization, mostly determined and dosed by the ruling (coalition) parties.

The „alternative institutions“ to a great extent turn the story on institutionalisation into the opposite. Instead of the stabilization of the natural ambient, it has been additionally destabilized, instead of the incrementality of institutional changes, they have been negatively substituted with „alternative“ quasi-institutionalisation. The domination of political (party) interests functionally subordinated all economic institutions, especially in the part of the allocation of property rights. That way, all significant economic processes, economic policies and main events are being controlled. What is being forced is the superordination of the „alternative“ informal codes of conduct over formal institutions, with parallel processes of great interests.

The economic imperialism from neoinstitutional theory has been literally copied and pasted to postsocialist practice of the SEE region countries. There's no doubt that the economic institute of the state government, politically structured and determined, during the transition period of the SEE countries was an „alternatively“ directed instrument serving certain beneficiaries (the privileged ones), performing its patronizing and redistributive role in a vulgarized way, under the form of neoliberal strategy.

### **Priority of pluralistic institutional development over economic policy**

Totalitarian party control coming from the governmental structure, which rests on the principle of log-rolling, narrow lobbying interests and subjective behavioral regulators, disabled the institutional control and adequate competition. The privileged „players“ and their widespread and strong „connections“, dominated over institutions (rules of the game). It deformed and reduced the choices of economic agents, the economic reality and the institutional structure. The adoption of certain measures of economic policy was often influenced by powerful administrative and bureaucratic groups. Violence against institutionalization was carried out rather than real institutionalization. Institutional changes are significantly behind other transitional changes in terms of structure, quality, quantity, functionality and time instead of being their support, stimulant and guarantor.

There was a large gap between the formally established economic institutions and economic behavior in practice, which was far from the regular norms and rules. The *strategic importance* of real institutional change and their *primary role* in relation to economic policy was neglected, especially in relation to self-sufficient, institutionally unfounded neoliberal economic policy which did not solve the key problems of transition over long period of time. The priority of economic institutions in relation to economic freedoms, as well as their complementarity was also neglected. It has been proven that institutions stimulate the creation, motivation, initiative, entrepreneurship, interests and healthy competition while disabling the institutional-

zation of privileges and procedural forms of domination and totalitarianism as they stand for a direct opposite of unlimited political power. (Draskovic, 2003, p. 30).

Key control and other instruments of the socialist regulation of the state were rapidly destroyed, whereas new instruments were insufficiently formed and they were not duly adapted to meet market principles and requirements even in their reduced form. Rapid and non-selective removal of the „created” state property and its conversion into private ownership have further weakened the institute of state regulation. Handling the main levers of economic system was reduced whereas its un-systematic features were increased, the economy was criminalized and many forms of quasi-institutionalization were expanded. Corrective activity of the state regulation „from above” is absent, which should accelerate the development of other economic institutions (the market regulation and property rights), which were separately developed in monistic and metastatic fashion. Closely privileged motivation and entrepreneurial initiative of rare individuals was forced.

Privatization was not conducted in accordance with certain legal and economic criteria; therefore it did not create the conditions for increasing the economic efficiency and economic freedom. It usually presents an insufficient condition for economic efficiency as its main promoters are the competition, management improvement, efficient and flexible regulation of the state. Competition is reduced to primitive market structures whereas the monopolies took advantage of all the chances that occurred (that were made possible for the privileged individuals). The lack of economic efficiency as the undisputed target functions and / or basic privatization criteria says enough about its failure.

Transition dogmas were formed replacing the socialist ones with an uncertain shelf life and altered value criteria ranging from ‘shock therapy’ through the theological replacement of goals of economic growth and development (finding the way out of the crisis, economic growth, efficiency) with the means (liberalization, privatization, democratization, institutionalization, stabilization), to the socio-pathological demagoguery and rhetoric which were used to create the alleged real institutional changes. Economy institutions have been replaced by *pseudo-forms* (imitation and improvisation), such as: *meta-institutionalization* (creation of over-institutions and institutions of total control), *institutional monism* (“messianic” uncontrolled market without parallel formation of complementary institutions) and the *quasi-institutionalization* (paternalism, monopoly, lobbying, social pathology, grey economy, annuity-oriented behavior, naturalization, street currency conversion, dominance of politics over economy, predacious privatization – „pocketisation”, privileged „newly established entrepreneurs” as alleged „efficient owners” etc. The effect of these obstructive factors in the period of post-socialist transition in the SEE countries was synergistic and destructive.

Total disbelief in the government regulation is neither logical nor productive, nor is it compatible to the growing IT, manufacturing, financial and civilization integration of the XXI century. Controlled and interactive functioning of all econo-

mic institutions is an imperative of time with no alternative. There is one mandatory common element, condition and priority for development, which will sooner or later have to be applied by all SEE economies. It is a universal mechanism of institutional coordination, which contains known target and instrumental parameters (see: *The Global Competitiveness Report 2008-2009*, pp. 3-7).

Table 33 is indicative enough regarding the need of the active role of government in times of economic modernization, not to mention the difficult periods of finding the way out from a long-lasting economic crisis. Comparison of target and instrumental parameters allows drawing of many conclusions. Two main conclusions among them stand out by their significance: *first*, the need for simultaneous implementation of restructuring and modernization of economy at several parallel levels and *second*, the selective usage of various parameters in different periods of reforms: starting from the range of active resources through efficiency of utilization of resources to the application of innovations for dynamic economic development. These indicators can usefully serve as a specific mirror of development in which the interested parties may find their own reflection and question the validity of their own remedies for economic development. They will be able to see immediately to which extent these remedies are in line with the above given parameters.

Thus they will also be able to evaluate their validity in the period of transition so far, as well as for building of long-term economic development strategy (V. Draskovic et al, 2010, pp. 106-107). Quality institutional changes are the main forces of the economy development. The economic institutions contribute to the functionality and rationality of the economic activities, economic politics, and accordingly to the economic development of the society. There is an opinion that the quality of the institutions depends on the political stability, efficiency of the public administration, quality of the law and its employing, law governing, corruption control and freedom of the public opinion (Kaufman et al., according to: Budak and Sumpor 2009, p. 178).

**Table 33. Target and instrumental parametrs of economies in transition**

<i>Target parametrs</i>	<i>Instrumental parametrs: 12 pillars of economic competitiveness (The Global Competitiveness Index)</i>
<ul style="list-style-type: none"> <li>- The strong and effective government that participates in the creation and support of the comfortable institutional environment</li> <li>- Development of a strong and diversified competitive economy</li> <li>- Institutional environment that contributes to the realization of entrepreneurial initiatives.</li> <li>- Socio-political system that respects the interests of citizens, eligibility, and the variability of the higher authorities, and the existence of active feedback relationship between citizens and government.</li> <li>- The existence of an informal institute, which reflects specifics of national culture and provides tolerance towards other cultures.</li> <li>- Reasonable openness of the economy and society.</li> </ul>	<p><b>BASIC REQUIREMENTS :</b></p> <p>Institutions Infrastructure Macroeconomic stability Health and primary education</p>
	<p><b>EFFICIENCY ENHANCERS</b></p> <p>Higher education and training Goods market efficiency Labor market efficiency Financial market sophistication Technological readiness Market size</p>
	<p><b>INNOVATION AND SOPHISTICATION FACTORS :</b></p> <p>Business sophistication Technological innovation</p>

### **Neoliberalism as the cause of inconsistent economic politics in SEE countries**

Global crisis has amplified the local economic and social crisis in SEE countries. Once again it emphasized the necessity of complex modernisation – a social, economic, infrastructural and technological one. In such a complex modernization, a significant place would be reserved for the modernisation of economic politics. The global world crisis is a difficult field for examining the possibilities of economic politics of SEE countries. Nevertheless, it the right field for testing the inconsistency of the thus far dominant neoliberal economic politics in the countries mentioned above. It is the inconsistency in the elementary and known development factors of „normal“ periods. Not to mention the necessity of recognizing the complex dynamics of economic systems and their immanent instability.

Considering the economies of SEE countries from the point of view of institutionalisation, the economic neoliberalism has turned the government regulation from the institute into a public enemy. The masterly manipulation over public opinion in media by certain politicians and apologetic economists accompanied their nearly total control of economic, quasi-marketing and quasi-competitive and other processes, resulting in their enormous enrichment. It, in the best way, revealed the paradox between rhetoric on competition and maximum reduction of competition in practice. In the era of pluralist hyper-institutionalisation and hyper-complementarity of the market and government regulation („invisible hands” and „visible heads”) in SEE countries, their synergism has been annulled and institutional monism has been urged (market fundamentalism) – Kolodko 2010, p. 61. It was the main formula for the economic success of „reformers” and rare individuals (propagated individualism) and failure of their economies and group interests.

In the style of economic theory ideologization as it's key feature, for over three decades neoliberally-oriented authors from developed countries, probably not accidentally, have been recommending to underdeveloped countries the macroeconomic recipes and „wisdoms” they apply themselves. These recipes have been undertaken and further propagated by certain economists and SEE countries' officials. The analytical strictness of these recipes has been followed by their practical inconsistency and fatality for the economy and the society, as well as by interest-oriented motivation.

Many, including SEE countries, couldn't wait to accept the „naive fraud of neoliberal ideology” (Brkovic, 2008). This ideological-economic „teaching” was based on initially incorrect premise and pious platitude that all private is good and all state-owned is bad. The „big lie” (term by P. Krugman) was meant for the small, underdeveloped, depending and obedient ones. The idea and myth of neoliberal *perpetuum mobile* originates from the utopian vision of the free market and allegedly “clean” competition. Such environment, allegedly a „natural” one, suits individual freedoms. In the economic reality there's nothing alike this idealistic neoliberal vision. On the contrary, SEE countries are dominated by the privileged codes of conduct, monopolistically inclining the economic field to one side (of the privileged). It is a direct and paradoxical opposition of the institutional, even elementary market behaviour. Social privileges have been substituted by much greater postsocialist privileges. The dictate of an economic pseudo-institute (government regulation) was replaced by another economic pseudo institute (market regulations). Why?

Because both government and market regulation are created by people, who, by their dominantly interest-oriented behaviour, deform institutional performance (as agreed codes of conduct).

**Table 34. Institutional features of underdeveloped (SEE) and developed economies**

CEE economies	Developed economies
Institutional vacuum (political, economical and social) and work of quasi-institutions	Biult complementary institutional environment, institutional competition and institutional interventionism
Neoliberal political economy	Consistent political economy
Collapsed and undeveloped economic infrastructure	Developed economic infrastructure and innovations
Disproportion of economy structures and market structures	Tuned economy structures and healthy market competition
Reproducement of economic and social crisis, possibility of devastating consequences	sustainable economic development, better adaptability to changes and faster exit from crisis

*Source:* by the author

As the basis for the above mentioned neoliberal wisdom, the idea of so-called „Mini-state” is propagated simultaneously. It is elementary unsustainable in methodological, logical, practical and empirical sense. It is not methodologically specified in what sense the state should be „mini”: whether in economic sense (which would mean the reduction of macroeconomic instruments), or legal sense (reduction of the rule of law), or social (reduction of social equality), or political (reduction of democracy, etc.), or in terms of limiting state sovereignty under the rush of globalization, or institutional (reduction of Institute, which characterized economic and social environment), etc. The consistency of the preoccupations of the liberal democratic tradition - a democratic state as an institutional mechanism, which articulates the private and general interests of society cannot be denied. The post-socialist praxis of SEE countries does not fit much into mentioned model; however it fits much more into „exploitative approach” to the State, with the *„uneven distribution of the potential of enforcement, maximizing the income owned by a group of people, regardless of how it affects the welfare of the society as a whole”* (North 1981, p. 22).

When it is stated in liberal jargon that the state has no higher goals than the welfare of individuals, it is probably clear that it relates to all individuals and the massiveness of this phenomenon, not just the privileged individuals. Long ago J. S. Mill raised the issue of balance between individual independence and social control. R. Nozicki rightly points out that the „minimization” of the state may be only justified when *„limited to the narrow functions of protection against violence, theft, fraud, breach of contract and so on”* (Cakardic, 2006, p. 856).

If we analyze the post-socialist SEE practice through the prism of these concepts, the picture will be rather dark and cloudy. Individualism of the few rich dominated in the practice, those who entertained the impoverished masses in a pluralistic rhetoric and demagoguery in the media, and in practice they plundered and brought them to the verge of poverty and survival. As a philosophy of methodological individualism, neoliberalism has been extremely successful in the formation of individual economic freedom, wealth, power and influence of the few privileged individuals. The enrichment process was not of innovative, productive and hereditary character but predatory. Minorities received much, but still - just what the majority of the people and the state lost. As with all other market distortions of monopoly, there were social losses that no one was appropriated, but they simply appeared as collateral damage. Institutional interventionism is imperative for developed economies whereas neoliberalism presents a tissue in metastasis and the risk which should be eliminated. Disastrous neoliberal economic policy in the SEE region principally replaced the economic (and also the social, environmental and other) objectives and means. It was used solely to improve the material position of the narrow circle of the „*elite*“. Under the banner of freedom, democracy, private property, entrepreneurship and the like, it directly and permanently caused pauperization of the population, the collapse of economic structures and other systemic disorders.

### **Neoliberal dogma and global economic crisis**

Finally the creators of neoliberal dogma experienced the „neoliberal tsunami“. „The innovative“ neoliberal formula to be used by others has finally been applied in the country of origin of the „messiah’s“ recipes. The results are catastrophic, practically stunning. The endless neoliberal dynamics of deregulation has, by means of „financial gymnastics“, penetrated the realistic limitations of economic reality, moral and institutional conditions and frames of rational human behaviour. These conditions and frames could be named regulators, stabilizers, institutions, norms and similar, but they mustn’t be based on ideological/interest-oriented matrix, futile rhetoric and/or fictive mathematical-virtual methodology. Many forms of neoliberal deregulations have led to the actual global financial and economic crisis, which demystified the „*capitalism with no alternative*“ and „*the end of the history*“.

Neoliberal rhetoric cannot settle the „*contaminated loans*“ and depths, estimated to dozens of trillions US\$. It’s paradoxical that the collapse of the financial market happened in the most liberal economy, gradually splashing against the whole world. Many will pay for the fault (and enrichment) of others.

The factors of US neoliberal procycliness (Figure 1) played the key role in the arising and deepening of the global financial crisis.



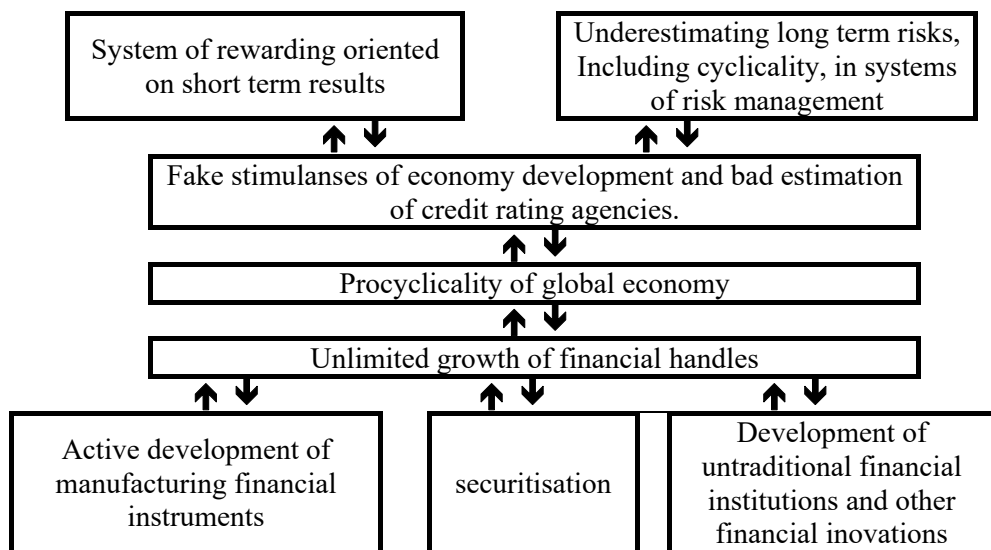


Figure 38. **The factors of the global neoliberal pro-cycling of the USA**

Source: Adapted from: M. Draskovic, in V. Draskovic et. al. 2010, pp. 135-150.

Neoliberal receipts from the beginning up to now have looked like elitist, destructive and avidity concept of power aiming to be converted into the almighty power, i.e. into the total domination (of few countries, governing parties and privileged individuals). It is matter of the new formula of capitalism (local and global imperialism) for sustaining and spreading the hierarchy of the dominant countries, governments, corporations and private properties of the powerful persons. All these mean that the crises economic problems, created by neoliberalism, are not only economic, but probably more moral in nature. The best witness of these might be neoliberal virus of simultaneous, double effects: wasting of the developed and surviving of the undeveloped, on the global, regional and local level. The economic institute of the market regulation has not only malfunctioned. It is more than obvious that the government regulation has malfunctioned, as well as the property institute throughout the robbery programs of privatization in the conditions of unprotected and unspecified property rights.

But, again, why? The answer is clear: because of the ruling of the avid, by personal interest oriented „reformers” (new lords, new-composed „efficient owners”), that blindly followed receipts of abusing neoliberal economy politics. Since, someone (sincerely someone completely insignificant in the global, and even regional relations) still orchestrate and publically support neoliberalism and following economic politics! They do not pay attention on admitting the mistake of the neoiberalism creator J. Williamson, neither the critiques of the authors like J. Scholte, U. Beck, J. Stiglitz, P. Krugman, J. Tobin, I. Hauchler, H. Lenk, H. Kiing (supremacy of the

politics to the economy, and supremacy of the ethics to both politics and economy), etc.

The domination of the neoliberal economic motivation, which has been characterized by numerous authors as the „interest avidity”, is transformed into the ill-fated elitist natural impulse (force) for the rapid achieving and enlarging the wealth, and the power, consequently, that always converges to the almighty power as the institute of the total control. As the ideology of totalitarianism and domination is the common denominator of all forms of the imperialism, the conditioned conclusion can be made in a sense that this is a matter of forming a new kind of imperialism of the postindustrial- neoliberal-virtual type. In its essence, there are the pyramidal financial and technology-organizational dependences and the corresponding exploitation. The previous types of imperialism were colonial ones (geographical) and neocolonial (industrial), but the neoliberal type might be characterized in this context like a *post-colonial colonization*, nevertheless it might look like a pleonasm.

### **Proposals of anti-crisis measures**

The economic policies of the SEE countries is located between the need for exiting from the social and economic crisis and the need for stabilization, revitalization and modernization of the economy. The measures of anti-crisis monetary credit policy should include the transition from anti-inflation towards stimulation policy (quantitative easing). This transition should support the economic growth and expand access to investment and credit resources. Recapitalization of some banks, introduction of stabilization loans and maximal increase of bank guarantee for individuals, must be taken into consideration. Government support to the real sector of the economy is necessary, through stimulating aggregate demand, especially branches that are oriented to domestic demand and to providing a satisfactory level of employment. Selected assistance to vulnerable households (increase of pensions, public works etc.) along with rational employment policy should reduce the threat of social tensions.

The practice of domination of annuity-oriented behavior and interests of capitalization must be eliminated line in line with implementation of resource efficiency increase. In the field of foreign policy it is necessary to take measures to force the export and long term reduction of foreign trade deficits. One should not fall into the trap of applying the protectionism and restrictions of international competition, because it would be just as disastrous as the application of neoliberal recipes. Tax policy is a multi-sensitive and difficult issue. However, as much as it has been done so far with regards of tax reform of consistent and stimulating taxing, tax policy must be flexible and quickly adaptable to difficult conditions of crisis. Although not included in measures of macroeconomic policy, the imperative of the State must be immediate prevention of evident collapse of educational system, from necessary

corrections of the Bologna process through irrational and exorbitant proliferation of (in private and also state) higher educational system to a much greater support to scientific research. The achievements of civilization and modern trends in the part of the knowledge economy must be accepted and numerous obstructive factors in this area must be eliminated, which dangerously threatens global development.

Macroeconomic stability is always an imperative, as well as the increase in the efficiency of budgetary expenditures, active stimulation and attraction of foreign direct and *green-field* investments (tax breaks, etc.), creation of conditions for development of healthy competition, reduction of business barriers, formation of the missing economic infrastructure, support for innovations and new technologies, development of integration processes, development of knowledge economy. It is necessary to take into account a number of associated risks of macroeconomic destabilization, nationalization, increased moral hazard, opportunistic behavior, financial risk, divestitures, etc.

Until the establishment of *the rule of law*, which will perform its basic functions (specification and protection of property rights, providing conditions for free circulation of resources, healthy competition and the creation of effective institutional structures), every economic policy shall be more or less useless. The discussions on the limits and the role of private and public sector in the economy, level of institutionalization etc. will be sterile and futile as well. Socio-pathological circle in the economy and society and the domination of pseudo-institutions within it must be narrowed: uncompetitive speculative and monopoly markets, under managing, organizational and controlling baton of bureaucratic-nomenclature and similar lobbying structures that often show their „originality” by avoiding the liabilities towards the

State and their own people etc. through specific political party protectionism. It is necessary to insist on a profit-oriented rather than annuity-oriented type of motivation of economic agents. In the period of transition, the second one has dominantly participated in the redistribution of national resources in favor of the bureaucratic nomenclature and speculative layer, to the detriment of economic development. This trend has decisively contributed to the creation of so-called „Grasping country” model (instead of „developing country”). National regulation institute has become a reality in all elementary and vital functions, which are proven to effectively act on the economy in developed countries. All business should be institutionally directed towards respecting and implementation of quality policies and procedures for closing deals together with accepting a guarantee for their implementation and taking appropriate sanctions for violators. Real institutionalization, institutional pluralism, institutional competition and complementarity have no alternative in economic development. They are a basic prerequisite for rational and consistent economic policy and sustainable development strategies. The institutionalization of post-socialist „institutionalization”, eliminating the obstructive mechanism of quasi-institutionalization and overcoming of neoliberal reduction and degeneration of economic reality is therefore a necessity. These are also prerequisites for a true stimulation of entrepreneurship development, market competition, economic efficiency and motivation.

Economic development is impossible without the active role of all economic institutions as a regulator and coordinator of economic behavior, which contain rules and the mechanisms through which successful implementation of economic activities is ensured. Assistance from abroad, foreign investment in real estate, uncontrolled construction of facilities at tourist spots and fertile plains only create an illusion of economic development. They actually represent the classical forms of disinvestment, threatening the economic development. Institutional changes must take place in synchronized and parallel manner (simultaneously). Successful economic institutionalization implies their complementarity, synergy and pluralism. Radical institutional changes are the general framework, a common denominator and a prerequisite for all other changes. They enable and facilitate economic stabilization, economic growth and development.

State regulation institute comes prior to the market process because it is an agent for the specification and the protection of property rights, as well as for creation of competitive market structures. These facts are in post-socialist countries of SEE unjustifiably and drastically ignored, only due to the interest motivation and greed of quasi-reformers. Market infrastructure must be significantly and rapidly improved as well as market structures, competition forms and market culture with gradual creation of an integral market. Market substitutes must be eliminated as well as mutant pseudo-market structures which only imitate the market infrastructure: flea markets, black, gray and quasi-markets, monopolies, etc. The economic crisis seriously threatens the socio-political destabilization. Therefore, the anti-crisis measures should be given special attention and must be given priority. Through the prism of social and political flexibility on some measures of macroeconomic policy it is necessary to consider their dosage, introduction, implementation and timely adaptation to the concrete situations.

The modernization of every transitional economy of SEE countries has its own features and specific development problems and priorities. Their main similarities would be a) long-term and inertial reproduction of crisis development and b) conflicts between formal and informal institutions as their own generator of economic and social crisis. Naturally, the state-economic crisis of SEE countries has a lot of similarities, regardless their specific differences in the level of development, size, economic, infrastructural and other indicators.

What is dominant is probably the mutual characteristics of the crisis they share: a) its spiral form, which started its formation in socialism and continued spreading over time, b) its long-term reproduction, c) combination of external and internal influence factors, primarily resulting from the „infection” (theoretical and practical) imported from the West and domestic cyclic (and inherited) crisis, d) existence of programmed institutional vacuum marked by the combinations of mythical and dogmatic institutional monisms (dictating state regulations and pseudo-market regulations), e) high universality of economic and social problems and crisis factors, which formed the specific braking mechanism of long-term impact and f) performance and non-performance of government nomenclatures.

The story of pluralism (of interests, politics, democracy, freedoms, media etc) has been replaced by the materialistic cynicism of the newly-composed „elites”, party centralization and nearly total control (over political and economic processes), which enabled privileges, enrichment of organized minority and impoverishment of the unorganized majority. The story of institutionalization has been turned into its opposite. Instead of the stabilization of the natural environment, it has been additionally destabilized. Instead of the incrementality of institutional changes, they have been substituted by the growing insecurity, social pathology and crisis.

The future development of SEE countries needs to be based on the convergence of two approaches: globalizing (anticipating adjustment to achievements and mutual development goals of all economies, regardless their level of development) and civilized (respecting national economic specifics and different paths of development)

There is one mutual element that each SEE economy would, sooner or later, have to change. It is the universal mechanism of institutional coordination. It comprises familiar target and instrumental parameters. But, their economic modernization and relevant development strategies need to be based on similar as well as on different measures of economic politics, which would follow the specifics of the economic environment and reached level of development. The findings of economic science and crisis economic reality have shown that it is inevitable to have regulation and control over market mechanisms (i.e. the institutionalization of the market as economic institute), if you want to avoid serious economic problems, crisis, unemployment, impoverishment and uncertainty, i.e. reduce the consequences of uncontrolled market actions.

In the conditions of general lack of system (organizational, institutional and normative vacuum) in the SEE countries, it wasn't possible to set up efficient economic institutions. The government structures chose to recombine institutions, which enabled the establishment of various forms of quasi-institutional relationships. Focusing on institutional monism (related to market, of dominant neoliberal type), narrowly privileged motivation and entrepreneurial initiative of rare individuals lead to an immeasurable and long-term crisis consequences. The failure of transition in the SEE countries undoubtedly resulted from the application of “reform” politics with double standards. Under the rhetorical neoliberal mask of the market, competition and freedoms, the politics and strategy of “reformers” were oriented toward non-market process, motivated strictly by individual interests, instead of propagated social and economic results.

Social and human values were degraded. Everything or nearly everything was out of control. Incorrect and retrograded processes were abundantly materially awarded, and social and economic results were catastrophic. Focusing on the process and neglecting results is possible only in the conditions of institutional underdevelopment, which enables the „flourishing” of interest-oriented errors and ambitions and their active impact on the economic politics. Crisis challenges may, in principle, have only one efficient response, which is the same at the global, regional or local level.

It anticipates focusing and coordination of five development i-factors: institutions, infrastructure, inovations, investment and information (knowledge).

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# A “NEW ECONOMIC” PARADIGM

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*Challenges, consequences, possibilities and ranges of a “new economy” are large and numerous and so they earn the attention of science and phenomenological approach, particularly in the character of its paradigm. Some theoretical and practical aspects of the “new economy” are explained in this work as a metaphor that reflects the spirit of postindustrial-informatics era, through the prism of estimating a level of its paradigm. Besides this, there are some answers regarding actual questions about relations between the “new economy” and economic theory, progress, civilization approach, economic skill and choice. In the aspect of theory, this analysis shows that the “new economic” paradigm is not only discussible but there are no reliable evidences about its existence. For, traditional laws, principles and categorical resources of economics are still in existence and effect. In that part the “new economy” has not changed anything. It is not especially worthy to add an attribute of theoretical paradigm to the “new economy” when there is clear that it significantly reduces the choice as the core of economy, making top competitions, forcing intracompany exchanges and network partnership which in a certain way present naturalization of commodity and monetary exchange and competition limitation. In the aspect of practice, there are not debatable informatics’, telecommunication, innovative, organizational, global and other achievements and manifestations that makes it “new” in a paradigmatic meaning of the word.*

**T**he latest technical – technology revolution (particularly in the field of informatics and communications, where microprocessor, optical fibers, digital networks, databases, computers, lasers etc., are in use) has big *economic implications*. The most important one is about making basic infrastructure assumptions for so called post-industrial era where many differences are relativizing (in time, place, culture, ethics, politics, ideology and other) and convergence theory is verifying but not economic convergency.

Through knowledge and information the bursts of globalization are penetrating without discontinuation. Service sector became dominant on the global plan in the end of the last century with 61% in additional value to the GDP (World Bank 1999) with a tendency of further and faster developing. Innovations in the information technology, computer networks, telecommunication and transport systems have contributed to the *markets connecting* in all distances and until now unseen incredible boom in international moving of capital, goods, services, people, ideas and cultural values.

In the indicated conditions, economy is called weightless, informative, network, digital, technocrat, E-commerce etc., which altogether, by the opinion of many authors, generate the term “new economy”. It presents *synergistic totality*, which is consisted of: knowledge (intellectual property), digitalized communications and information, Internet, business network connecting with very loose boundaries, innovations, virtual and dynamic business, intracompany exchange with elimination of intermediary and reduction of market place, global competition, Web electronic business, flexible production systems and organizational structures, property and non-property partnerships, etc. (adapted according to Kotlica 2000, pp. 197-9).

In accordance with the mentioned trends, the new economic branches are being formed, traditional ways of business modified, traditional vertical organizational hierarchies and horizontal structures eliminated and/or relativized, employment structures are changed and shifted in the direction of service sector, human knowledge is multiplied by accessibility of information and their fast processing and distribution, business transactions are automatized, electronic trade, banking online and electronic mediums experiencing a real boom. The consequences for economy are diverse, but we will indicate the most positive ones: time reducing in operating business transactions, significantly cutting down of managing costs and prices, profit and revenue increases, reducing engagement of business equipment, productivity increases, more efficient inventory, better and faster serving of buyers, and so on (Bjelic, 2001, p. 29).

### **Economic theory and the “new economy”**

If we have in mind that under economic theory is meant scientific generalization of facts and evidences about processes and phenomenon, taking place in economic reality, then it is clear that the term “new economy” can apply only to new conditions of economic reality, i.e. on specific and new shapes of organizing of economic activities arisen under dominant influence of factors described in the introduction. It can't, in our thinking, be identified with a new economic doctrine<sup>9</sup>, for it doesn't come from beforehand established principles and conditions, but dynamically forms, arranges, adapts and develops them.

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<sup>9</sup> A study of something set as a system; group of opinions of one theory trend (school).

Contrary to the economy, as we understand it as economic theory or economic science which is in theoretical-methodical sense is limited (abstract, relative, hypothetical, pluralistic, belated in explaining of phenomenon, ideologized, model instrumental, open to changes), the “new economy” presents a sum of manifestations of economic reality, and such as it has own concrete and/or virtual organizational shapes, developmental logic, the laws of existence and change of “outside world”. Therefore, a task of modern economics is to explain various problems, processes and phenomenology of the “*new economy*”, to explore and discover its most general, fundamental principles of organization of economic activities, in their close mutual relations of dependence and relations to social, political, ideological, institutional, cultural, ecological, ethical and other processes (e.g. relation to the market activities, competition, property, governmental regulations, certain forms of socio-economic order, sustainable development, and so on)

The similarity between economic theory and the “new economy” can be perceived in *applying of synthetic and multidisciplinary knowledge*, which enable adaptation to the general laws of economic development, improvement of functional mechanisms and organization macro and micro economic (business) systems (at national and international level) and affirmation of principle in rational economic behavior of economic subjects. But, while economics, as teaching discipline *synthesizes* accomplishments of more sciences and explains business rules and its mechanisms, methods of economy and competition, economic policy, problems, and contradictories in practice in various economic fields (more exactly people’s behavior in economic activities processes for the purpose of efficient using of limited production resources and/or managing them), the “new economy” presents exclusively the shapes of their appearance (realization, manifestation). It is not less important one more likeness between economics and the “new economy” that refers, more or less, to ideology (explanations and excuses in M. Glaub’s language). In that meaning, we can cite, for example, the definition for the “new economy” by California University professor of sociology M. Kastels, who defines it as a “new capitalist economy”, which bypasses areas that are not valuable for it. (Draskovic, 2002, p. 24).

The economics is concerned with all those popular economic problems (inflation, unemployment, governmental spending, energetic crisis, regional differences in development, foreign public debt, budget deficits, hunger, poverty, inequality, environment pollution, etc.). The “new economy” is concerned only (or mainly) with achieving competition advantage, competence and appropriate business success, which is expressed through diverse aim indicators (profit, etc.) and which is possible (attainable) by best functional, organizational, time and place combining of limited production factors and alternative ways of its use<sup>10</sup>.

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<sup>10</sup> A majority interpretation of the essence of economy as a science of rational choice is relied on L. Robbins’ definition, by which economy studies human behavior as a relation between unlimited goals (human needs) and lacking resources that have alternative uses. It is interesting that the authors of the most contemporary economic books glorify especially the merits of L. Robbins, forgetting that for the great period of time before him, the priest Thomas Robert Malthus indicated to the limitation of food

As economic theory researches economic functionality, and the “new economy” is being grasped as a specific and contemporary form of economic activity, it comes from it that economic theory, in addition to everything else, as a subject of research has also a phenomenology of the “new economy”. In other words, economic theory is “economic philosophy” which explores the types of economic behavior, organization and activity (generally, and even the “new economy” particularly), their evolution, goals, criteria, property and contract forms, interest system and subject motivation of economic activity, and so on.

The Nobelist M. Allais indicated to the “necessity of synthesis and unconditional submitting to the practice lessons” of contemporary economics, alluding on its abstractness and all the more specialization on different branches (the theory of price, institution, risk, money, development, international exchange, market balance, rational behavior, etc). That specialization is, according to his opinion, necessary and desirable, but it has to respect the necessity of scientific synthesis. The total objectivity in expressing the practice is impossible (for it is impossible to draw the final conclusions of relation between people and subjects, as he says), but it is needed to make efforts to become close to it as much as possible.

Regarding that, he supports approach of economic reality theory and finding the basis where economic and social politics can be normally built”(1989, p. 27). The “new economy” is, in any case, a practical phenomenon that is to be respect, paid a full attention and thorough scientific analysis, especially in the aspects of need of adaptation of local entrepreneur behavior, and nothing less actual economic politics. Economic theory must always be open to changes in realistic practice.

The changes that the “new economy” brings with itself are in some way certain and predictable: dynamic, complex, unequal, rich in information, technology contemporary and innovatively intensive. Mentioned reality of the “new economy” has to be respected and implemented in all development plans that are based on adaptation to external surroundings, as much as possible keeping its specificities, and need for maximization of its own benefit. For, the “new economy”, volens nolens, comes out as socio-historic and economic surroundings, which (united with globalization, as its generator) relativizes even national sovereignty, institution of governmental regulation and applying of any known economic theory in explanation of its phenomenon. But, about new original theory based on appropriate paradigm cannot be talked yet.

Even if it lies in synthetic opinion, multidisciplinary scientific approach, relativized scale of valuable criteria, exceeding of one-sidedness and exclusiveness, on the most modern scientific-technological achievements and so forth, the “new economy”, however, doesn’t mean creation of some “*new theory economic para-*

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(as a resource developing by arithmetic progression) in relation to the growth of number of residents as bearers of needs (which increases by geometric progression). It seems like obvious that the bearer of the idea is, however – T.R. Malthus.

*digm*”<sup>11</sup>, which forming would modernize and enrich the economics that is economy idea. In the last century there were several scientific based and original theory economic paradigms: physiocratic, mercantilistic, classical, Marxist, institutional, Keynesian, neoclassical, neoinstitutional and so on. Disregarding the all mistakes and critics that can be directed to it, as well as concept-methodological contradictions, all mentioned economic theory analyzed: a) complex economic reality, b) choice as a way of basic contradictories of economic reality, and c) original economic motives. Contemporary economic theories are doing the same tasks in the conditions of complex “new economy” and dynamic changes initiated by it. Heterogeneous world of economy has never been explained theoretically as homogeneous and uncontradicted constructions. It applies especially to exceptional complex and virtual world of “new economy”.

Observing *the aspect of ontology*, through the object of economics’ researching, it is obvious that the postindustrial era has already begun in economic developed countries. The focus of economic activity got into solicitous sphere, and limited (and strategic with it) resources became information and accumulated knowledge. Market economy and “homo economicus” don’t vanish but they are significantly being replaced by network and virtual economy, electronic commerce, intracompany exchange, creative specialists of free individualism, and partnership equality (which replaces hierarchy). In that sense, modern economic activity however creates certain ontological premises for forming postindustrial paradigm, which is often identified with the “new economy”. Perceiving the development through the prism of relation industrial – postindustrial, it is obvious that the first part of the relation exhausted itself, which means that economies in crisis (as it is ours) in their way of recovery have to orientate on postindustrial values and economy principles.

Of course, the *gnostic premises* of new paradigm are not less important, for postindustrial civilization had a great influence on improvement of learning process. Although formal logic, dialectic method, mathematical method (linear programming, etc.) systematic approach and so on, keep its scientific-exploring importance in economics of postindustrial era, it seems that the increase in importance of information, business networking and virtuality more and more put an accent on the domination of analytical models, system-structural and functional analyses, as well as other modern methods for information editing. It means that one-sided monistic approaches give up their places to more complex – pluralistic ones (Nurejev 1993, p.144).

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<sup>11</sup> The word “paradigm” is derived from a Greek word (παράδειγμα), which means an example, model or archetype and can be used in different meaning. In our case it is thought of fundamental economic theory that dominates in a certain moment (period) of its development. In the basis of each paradigm it lies some general guiding idea or concept that its concrete expression finds in a) primary or original opinions, b) system of basic principles, laws or enough likely hypothesis.

## The “new economy”, progress and civilization approach

The man and society always long for progress. The progress is natural, historical and legal process of movement. The basis of social progress makes economic progress, so there is a need for constant studying of factors and the law of economic development (that are changeable in time and place) and explanation of process and phenomenon in the past and present, for the purpose of future prediction, reduction of uncertainty and stochastic state and identifying engine forces of social – economic progress. The “new economy” makes the progress owing to new and original methods of economy, organization, communication, distribution and editing of information, thinking and working.

More concretely, it forms its success on exceeding, equalization and neutralization differences in development, culture, nation, politics and so forth, on the harmonization of business interests and differences, as well as on convergence of polarized social - economic systems. So, it lies on the *globalization* of goals of development and its activities. In that context there can be formulated an essential question: Are the basic opposites of economic reality between unlimited human needs and limited natural resources increased or reduced in that way? We are assured that the various authors’ analyses from various aspects, would give various and contradictory answers.

The “new economy” corresponds very well with the civilization approach, which observes the development of society through the prism of unification of all fields of social life and relations, and economic relations as their subsystem that have: a) organizational or technical – economic aspect (where economic relations are directed to rational and efficient using of available resources), b) social – economic aspect (where economic relations are defined by the character of property relations). All these mentioned aspects the “new economy”, in its practice, more or less successfully solves and uses, for it respects:

- Complex mutual interactions and impacts between economic, social, political, cultural and other subjects of economic activity;
- Multidisciplinary and systematic scientific approach;
- Relativized scale of values and standards;
- Developmental specificities (different conditions and levels of development);
- Virtualization of business relations;
- Flexibility of periods of time, space dimensions, concrete organization forms and partnership cooperation conditions, and so on.

The tendency of unification of one-sided characteristics into their real unity, which was remarked a long time ago by A. Toynbee (1934, p.150), is contemporary reality, which the “new economy” contains, understands and respects. This has become the criterion for civilization, beside achieved level of economic development, respectability of historic traditions, social motivation, institutional building, democratic achievements and human rights. To the necessity and affirmation of such

(civilization) methodological approach to social development have influenced many evolutional and revolutionary (in the meaning that T. Kuhn –1974 used this term) changes of capitalist and socialist systems (which, after long term ideological polarizations, confirmed the principle of their convergence), as well as the latest scientific technological achievements. In that way, the old fashioned ideas about linear, non alternative and strictly defined development, were overcome as well as traditional production factor scheme<sup>12</sup> and economic growth (work, land, capital), absolutizing any form of property, the old fashioned interpretation of socio-economic role in a state and one-sided “messianic” monistic theory of development (liberalism, monetarism, etc.). The indicated conception respects maximally fast technological moving and greater importance of obliging (and informative in that context) component of economic growth as well as diverse ecological, social and other limitation.

Although there cannot probably, in general, be talked about “*the arrival of quite new civilization in the broadest sense of the word*”, as A. Toffler metaphorically anticipated a quarter of a century ago (1980, p. 30), it must be admitted to the “new economy” a forming of a *new developing conception*, which is free of many traditional types of ballast. So, in the developing sense, the “new economy” can really aspire to a new paradigm. It completely changes all fields of life and economy as well as general form of the socio. This is a chance to remember the work of J. Naisbitt from 1982. (Megatrends: “10 New Directions Transforming Our Lives”), where he almost unerringly predicted many of the dominant tendencies in eighties and nineties years: a transition from industrial society to information ones, from “forced technology” to a “high human element”, from a national economy to a world one, from short-term to long-term orientations, from centralization to decentralization, from institutional help to self-help, from representative democracy to direct democracy, from hierarchy systems to systems of relationships.

In his later book “Megachances: Options For Tomorrow’s World”, the author enclosed all indicated tendencies and put them together into one characteristic of our epoch: “*transition from choice or – or to the society with a broad diapason of choices*” (1985, pp.13-6). Unfortunately, we cannot agree with the last one taking it as a universal principle, for it is very discussible not only the *enclosing* the society that have a broad diapason of choices, but the pure freedom of choices, which often chokes and reduces in various ways, and at all levels: individual, local, national, international and global. Therefore, we think that the reduction of choice is direct proportional to an institutional vacuum, and it is unfortunately, broadly spread and it disables the development of many countries and regions. In that sense, using broad

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<sup>12</sup> Transforming information into an important production resource in a certain way undermines the working theory of values, broadens the production factor scheme and causes many practical consequences. Namely, the technique pushes the man out of some fields of material production sphere, which is reflected onto social system (across the unemployment growth and so on). In addition to , there brings up the whole set of questions regarding to researching of original role of work in creation of production surplus, for possibility of measuring values of various informative services on the base of abstract work, and so on.

used term postindustrial society, which has many names in the literature (cybernetic, information, civilization of the third wave, ecological, postcollective, humanitarian, postoptimal, technocrat, digital, etc.) we have to be aware of its limitation, restriction and imperfection, particularly from the aspects of its diffusion in the world. Although, the “new economy”, in principle, offers big possibilities of concretization and selfpromoting, there is a significant (or rather fatal) discordance between developed and undeveloped world in the point of view of applying its positive effects.

The contemporary economics, according to the Pareto principle, diverse ethic and democratic principles, means that a maximizing behavior of economic subjects is allowed only if doesn't endanger the interests of other economic subjects. Legal laws protect the interests of economic subjects, whose development is a criterion for the development of “*legal state*”. Observing that aspect, the law makes a compromise between economy and morality. Analysis of that “new economy” aspect exceeds the limits of our topic but we are assured that it will bring to dramatic and disappointing results mentioned or perceived through media. Ethical-economic analysis of the “new economy” would encompass many problematic aspects, among which are: researching of consistence of applying market principles in business and privatization, valorization of new values, violation and reduction of competition, resource exploitation, the contradictory level between private interests and association ones, respecting of professional ethic standards, disharmony of general human values, the position of small and undeveloped countries, and so on.

### **The practical character or the paradigm of the “new economic” skill**

Many authors give to the “new economy” the meaning of paradigm, not in theory but exclusively in practical sense. The key elements of that “new scientific paradigm” A. Dragicevic and D. Dragicevic see in self-developing ability in data processing (regarding the volume, complexity and speed), ability of its recombining and decentralization flexibility (2003, p. 36). In that sense, there comes up a clear conclusion that it can be rather talked about technology paradigm (information, communication, transport) than economic one, which is applied in the “new economy” the first, which is leaned on it and have a dominant impact from it. We do not agree with the ascertainment of B. Ilic that the “new economy” emerges in theoretical.... meaning (2004, p. 115), for it is, among others, in contradiction with his previous legal understanding that it “doesn't repeal economic laws” but only “*demonstrates a new quality of economy growth and uncover new possibilities of cooperation and development*”, (Ibid., p. 106).

Besides that, it seems that the “new economy”, at least in single segments (for example, in the field of competition), significantly relativizes and reduces the choice and economic laws, but it doesn't formulate the new ones. That is maybe its biggest paradox, because it increases, in principle, informativeness and basically spreads the



horizons of choice. There is obviously the variance between illusory and real, which is logical from the aspect of different levels, asymmetry and selection of informing.

It is indisputable that the economic reality is drastically changed under influence of the previously indicated high technologies: there is raising of new forms of production, business and organizational relations, increasing of systematic complexity, integration, virtuality, spontaneity, communication, alternation, independence, adaptability, globalization, innovativeness, dynamism, organization and institutionalism, and reducing of discordance, predictability, module dependence, managing hierarchy and bureaucracy.

With the relativity and reduction of the competition as well as bigger virtuality, and networking of business relations, the “new economy” is characterized with:

- Providing flexible conditions for business partnership;
- Fair awarding of participant in business according to the agreement;
- Protection of property rights, entrepreneurship and innovativeness;
- Systematic, organizational and business adaptability;
- Term business cooperation;
- Relativism of space distances;
- Speed and assurance of communication and control;
- Dynamic coordination of partnership relations;
- Narrowing of organizational hierarchy limits and
- Surpassing of conflicts between the *freedom of unification and freedom of competition* (like in the M. Friedman’s language)

After physiocratic, mercantilistic, classical, Marxist, Keynesian, monetarist, institutional, neoclassical and neokeynesian economic theory paradigm, the question is arisen: can be talked in the same meaning about theoretic paradigm of the “new economy”? We consider that the attributes informative, virtual, network, digital, participative and “learning” economy doesn’t mean new theoretic construction, which can be marked as a new economic paradigm (independently of the level of consistency, abstractness and applicability of the indicated economic paradigms). The “new economy”, at least presently, doesn’t offer any new theoretical conception, nor contrastively contradicts to old and current ones. Evidently, it is not its goal as well, nor the necessity. As a specific, contemporary and technological intensive form of economy, it realizes its own goals, which have been traced by their creators. It is up to economic theoreticians to establish similarities and exceptions to the current economic models, and eventually to finish them off and adapt to new phenomenon, contradictories and paradoxes (among which, the biggest is mighty global spreading of market and narrowing of competition via intracompany exchange and diverse forms of partnership and network cooperation).

Entire current economic history talks about looking for an ideal economic order and attempts to make it real. To the utopianism of such attempts in creating an exclusive and unique economic model indicated M. Jaksic, who prefers the system

of evolution instead of utopia and instead “Big order” – he gives advantage to the complexity of diverse systems (2005, p. 65). There is no universal or aim economic theory and paradigm for all times. But there is *economy* concretely, in the sense of commerce, and it is much more based on the skills, knowledge and economic policies, than on theoretical abstractions in books. In the sense of economy as the skill (many state that the economy is not a science but *ars* like the art and skill of economic activity), there is no doubt that it can be assigned to the “new economy” an original paradigm. It was not accidentally that J. N. Keynes, the father of J. M. Keynes, had emphasized the skill of economy as the third dimension, which balances with the economic policy the positive (what is) and normative economy (as it has to be).

Observing from the aspect of positive and normative economy, we consider that the “new economy” doesn’t have appropriate theoretical paradigm, but from the aspect of skill and economic policy (macro and micro both) – there is for sure. In that meaning, we support the understanding of M. Jaksic that the methodology of economic skill as wider, more complex, less determined, means having knowledge about institutions and networks and fabric of economy and society” (Ibid., p. 67). We will add that it is more various, more dynamic, more adaptable and have more priority (in time and meaning as well). The indicated context, however, emphasizes the paradigm of skill of the “new economy” that directs the development in accordance with the real conditions in surroundings, and they are under the crucial influence of the informative- communicational technological boom and the appropriate growth of service activities.

The “new economy” with its concrete practical manifestations bypasses all those known paradigm of theoretic economy, and even institutionalization, and in a very paradoxical way: leading actors are maximally forcing the freedom of their own choice based on the accessibility to the most contemporary technologies, limiting the choice of others, the outstanding ones. But that doesn’t matter with the theoretical economy, that is only a new paradigm of domination embodied in the alleged global competition, whose motto lies in group partnership and top competition of the most developed compared to the others, over national institutionalization and control, and outgrowing many differences (because of economic interests domination) with keeping or rather forcing the most important difference – in economic development and power (the absence of economic convergence).

When the competition is being controlled (and eliminated globally), spreading the power and its transition to omnipotence becomes routine of the technique (operationalism), tactic and strategy. It could always, through the technique and technology – now informatics, communication, transport and other, supervise the competition advantage, dominate in market and increase the property. Therefore, the secret of the economy, if it exists at all, doesn’t lie in market nor in the property, but in the competition. The “new economy” has excellent developing performance; it is based on intensive developing practical paradigm, by which the superiority and power transforms into almighty competence that makes it global in many segments. In that

context, many new practical aspects of its paradigm emerge, which analysis exceeds the limits of this topic, with a remark that the necessity and inevitability of adaptation don't have an alternative.

The changes occur rapidly, replace and modify the practical aspects of economic paradigm. The opinions of those aspects come into conflict, but the basic economic motifs remain permanent and unchangeable, and economics trot in search of belated explanations of dynamic economic practice. The economy as a science is too much interdisciplinary and submitted to the politics so that it can often changes and defines paradigmatic theoretic models which will be universally accepted. The future is uncertain, and it significantly depends on economics and politics, more and more on man's conduct with the ecology, moral and economic institutions, and how it is seems – it depends at the most on the knowledge and bio-technological innovations. Although, the all consolations are absurd, for there is an eternal truth that everything will be gone (a Russian saying), it is a fact that the era and the *paradigm of knowledge* come forth. That is maybe the biggest lesson, or even a consolation, for exhausted nation of mostly postsocialist and many other undeveloped countries. It is maybe a paradox virtue of the “new economy” also the biggest for it builds many collective (network connected) values and relations just through forcing, affirmation and valorization of individual knowledge. There is no barrier for the knowledge only, and that is what is the biggest chance and challenge of future for all of us.

### **The “new economy” and the choice**

Most of the authors bring the essence of economics down to a choice, proceeding from the resource limitation. In addition to, the efficiency, rationalism and other forms of economic behavior are functionally observed in the context of the choice. A free economic choice has always been and remains unfulfilled ideal for many economic subjects, no matter how much it is desirable, democratic and natural. In the way of free economic choice, there were many limitations that in different times and places have more or less impact on its reduction of: pseudo-market structure (monopoly power, government controls, public goods, externalities, market failures, asymmetric information, and so on).

While the essence of theoretic economy lies in the choice analysis, the essence of the “new economy” practice is in the monopoly striving for reducing the choice as much as possible, particularly in the field of competition as one of the basic problems, which is to overcome by making top competences and international market control. In addition to, there is, in interest, virtual, network, organizational, informatics, communicative, innovative, strategic and other way, overcoming of pluralism of business relations in economic reality, numerousness and complexity of elements, many contradictories, cultural and other differences and so on. Formalism, sophistication, unstableness, and nonprocedural of partnership cooperation, as well

as combining of knowledge, skills and competences, are used for the purpose of eliminating possible competition, making major and/or top competences, reducing and sharing the costs and risk, easier accessibility to the missing resources, etc.

If it is true that the essence of economics lies in the choice, then it is accurate that in the conditions of reduced choice (which stands, as we said, in single segments for the “new economy” either) the “new economy” is being reduced itself. Does it mean that the “new economy” which is for the most of the part oriented to the eliminating of economic competition (making partnership networks and so called “global” competition looked like a transparent screen, virtuality that avoids regular economic laws and behavior rules, intracompany exchange and monopolization, and so on) presents more reduced economy than the current economic practice? For a regular and scientifically based answer there is necessity of broad analyses and elaborations, but we are still inclined to waive the scientific caution and conclude that our thinking goes toward the positive answer. For, the intracompany exchange takes a big part in the total world export - in 1993 there was 33.3% (UNCTAD 1995, p. 193), and today it is pretty more, although it finds hard to ascertain the real amount. It is known that the laws of free market are not in effect inside the TNK, but there are forming of the internal prices according to the their dictate.

When we take into consideration their numerousness, expandability, size and economic power, it comes from it that only  $\frac{1}{4}$  of world market operates in the conditions of the “free” market, while the rest  $\frac{3}{4}$  is involved into specific corporative-command, intracompany and network planned system. That fact directs us to the conclusion that there is existence of specific, convergent and reduced economic system at the global level, which presents a strategic combination of market and planned regulations.

At the other side, there can be posted a pretty opposite, but very logical question: what can really happen in the conditions of being possibilities of ideal and complete choice, would the choice extinct then, as B. Loasbi thinks, would really remain only stimulus and reaction (according to: M. Jaksic, Ibid., p. 66). We believe yet, that there will be the choice too, because it is immanent in the human nature, as we think that we should not switch from one utopia to the other, so hypothesize the impossible things, as B. Loasbi made hypothesis of certain future, in which, as he quoted, would no choice. It is too certain that the future is uncertain...

Beside its analyzing the choice of directions (ways) of using limited recourses that are available for the society in satisfying growing and practically unlimited needs (as alternative and competitive goals) and complex economic reality (which is in continual change), the economic theory is studying the *original economic motives* too. They are very little or almost none subject to change, even during the longer period of time. Observing through this prism, by analyzing the basic interest-profit economic motives of the “new economy”, there can be drawn an objective conclusion that the economic motivation has remained the same, so according to that standard there would be no talk about some “new” economy. Of course, that doesn't

reduce the neediness of significant changes in the thematic problems of the economic theory, provoked by appropriate dimensioning of concrete changes in the economic reality, which emerged under direct influence of the “new economy” phenomenon, more exactly the series of the new economic occurrences and processes that are current and that innovatively accelerate and improve.

Business network connecting significantly reduces the economics through the factors of productivity, for in principle it mostly uses three factors: information (software), human knowledge and infrastructure (hardware). There is increasing of their mobility, multifunction and flexibility. Besides that, network economy depends on classical economic laws, e.g. the economy of volume, for the network value grows with the growing number of its users. The indicated phenomenon changes the established principles of rarity as a base of use (“value”). At the other side, the classic trade and traditional term of trade are more and more being surpassed, for the big part of purchase transactions is being done electronically, in virtual world. Physical contacts are being replaced by digital.

There is increasing in informing of exchange participants, the asymmetry of data loses its importance at middle and lower levels. The economy of data is significantly different from the economy of things in the view of keeping and transfer of property rights, possibility of copying, storing costs, expiring. The economy is transforming in organizational, structural and functional way. The theory of marginal use comes into doubt too, in the case of productivity and digital product distribution. The services are not any more the only untouchable sort of value. The market, in the very meaning of the word, becomes conversation where the importance of buyer has a dominant role. The buyer drastically pays his eventual wish to follow arriving changes and innovations, which affect his standard.

What to say about huge majority of population who doesn't have that possibility?

With unprecedented speed the structure of needs, knowledge and values are changing. So, though the new theoretic economic paradigm did not emerge, the old paradigm is being inquired into and disregarded, even its most general points. All of these is happening in a short period of unseen polarizations and paradoxes between marginalization and globalization, individualism and synergism, institutional disintegration and operational integration, freedom and repression, liberalism and protectionism, democracy and totalitarianism, tolerance and exclusiveness, creation and improvisation, constructiveness and destruction, openness and conditionality, competition and monopoly (united unique competences), conservativeness and revolutionariness, developing continuity and discontinuity, eliminating old boundaries and setting new ones, rhetoric and reality, economics and politics..

As the economics was becoming more formal, instrumental and strict (often tautological and too ideologized), it paid less attention to some practical issues and problems from economic environment (which were more interested in political economy and institutionalism). It can conclude, for sure, that in this view, the economic

theory is in big discordance with the practice<sup>13</sup>. Transitional occurrences are maybe the best example of the indicated reasoning. No matter for the economic theory (as it is, too extensive in volume and not united, and it is composed from many theories) “bypasses” many essential questions of economic reality and failures of economic policies, we cannot agreed with some authors’ thinking that it falls into crisis. We are more inclined to think that the economic apologetics take its place here, than it is about the economic ignorance.

Economic apologetics, by the nature of the things, is limiting possibilities of the economics. In this context, there can be always found an “excuse” for the economics, in a long ago opened dilemma whether it is (and in what extent) a science or an art. It is not less important the fact that number and speed of change in economic reality too far exceed tempo and possibilities of their studying.

The opinions of real functioning of economy of postindustrial type, lead us at least toward the two platforms of questions: *the first one*, how, in practice, to carry out economic activities, growth and development in efficient way (so how to get out of crisis), and *the second*, does this “new economy” mean a new paradigm or not, in theoretical sense? The answer to the first question implies the adaptability and using of standard models. In the answer to the second question, we think that the “new economy” creates a new paradigm in strategic management (V. Draskovic 2003, p. 30) and the necessity of paradigmatic change of ways of thinking and economic behavior. From the aspect of the new paradigm, it seems that the new economy deserves that epithet only in respect to the new economic reality, the skill of economy, new nature of a company, its structure and organization. A contract approach has relativized the role of the company as “black boxes” where the resources come into, combine and then get out as completed products. The new economy sets new question before the economics, from which one is the most contradictory: why inside the company as a market subject, the market relations are more and more in effect?

No matter whether the “new economy” is assigned more or less the paradigmatic importance, it is fact that it provoked significant and revolutionary changes, which are scientifically followed, analyzed and studied. The economics has made a step into new epoch, which can be designated as a pluralistic economic synergism, and lies on the evolution of complex, dynamic, open and virtual business systems, based on the principles of selforganization, equal and “floating” (changeable, impermanent) partnership cooperation and autonomy.

We believe that it can be objectively expected that the new changes of economic reality (under the influence of the “new economy”), structure of contradictories, prio-

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<sup>13</sup> We will cite an example of theoretic perfect market and/or competition as neoclassical standard, whose every variance is thought to be pathological, although it is quite different in the reality. Or, for example, the sustainable development is in a direct contradiction with actual market prices, which objectively aren’t based, not even approximately, on real externalities, so they cannot express all ecological damages that happen to environment because of market actions. What can we even say about growing conflict between competitive economic goals-efficiency and social justice, which some ignore it, assigning it to ethic problems.

rity, system and criterion of values, will have an impact on the developing of many new directions of economic thought. It is certain that the “new economy” in some extent, violates and/or relativizes thesis of perpetuity and universalism of principle (and myths), “market choice and selfregulation” and “state-planned dictate” (in other words “spontaneous evolution and learning control” in a language of F.Hayek). For at one side, it modifies the market choice and verifies convergence, and combination of market competition (as a horizontal dimension) and economic force (as a vertical dimension), while at the other hand it considerably reduces by monopolization of production and market (intracompany exchange, network business connecting and so on). At the end, we support the argument of G. Kolodko, according to which, “*in spite of new technology and forms of economic activities, the old laws, which were described by traditional economics, starting from the perpetual law of supply and demand, are still in effect*” (2002).

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# INSTITUTIONAL CHANGES, NEOLIBERALISM AND CRISIS

Veselin DRASKOVIC

*Modern changes, especially institutional, economical, and technological ones, follow one another. Many phenomena from the past have been left unexplained. Especially the non-market and anti-development redistribution of the wealth using various sophisticated methods. This is a fundamental problem of the economy. According to theoretical and practical explanation it's about a game with informal and privileged rules of conduct, taking place on a monopolized field, dominated by opportunity-oriented behavior. It is a contrary to institutional behavior, and can be called imitation. Designing and realizing new ideas is a hard job. Especially in conditions of social, economic, developmental, technological, ideological, political, and other polarizations, dogmas, and crises. Most economists are stunned by the fact that the economic science (positive economy) has been increasingly differentiated for decades, while economic policy (normative economy) has been increasingly personified. That is why the gap between economic theory and economic policy is widening.*

Modern economists usually don't criticize this phenomenon. Their criticism would be directly in the function of overcoming the *gap*, which is mostly caused by the traditional *dominance* of politics over the economy, due to the efforts of the ruling nomenclature to control economic processes as much as possible. And all of this in addition to the official imposition of (quasi)neoliberalism! *The paradox is that neoliberalism allegedly promotes freedom, and doubts the democracy as the rule of the majority.*

Changing people's awareness of the importance of economics, realistic entrepreneurship, and economic freedom<sup>14</sup> depends directly on the degree of implementing

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<sup>14</sup> Freedom of market (and other) choices must not be impeded. However, freedom of choice must be realized only with one's own risk and money, within the limits of moral criteria, social responsibility, rational behavior, institutional standards, protected and clearly specified property rights and games on the field that does not take someone's side. The market is not and should not be opposed to freedom,

the economic science into real processes of economic reality. The dominance of politics over the economy imposes not only the influence, but also the ordinary translation of thinking, ideas, and hypothesis of a positive economy into a normative one. In addition to motivation and control, ambitions and attempts to spread economic knowledge are limited. Creative communication is eliminated, while the possibility of accepting progressive changes, exemplary models, and civilization traits is diminished.

In theory and practice, there are valid answers to contemporary challenges, problems, contradictions, issues, and dilemmas regarding globalization, transition, privatization, institutionalization, economic growth and development concepts, and so on. *Without strong institutions* it is not possible to discover, limit, and penalize many hidden, destructive, and opportunity-oriented behaviors, as well as the ideological and ecologically blurred essence of many anti-developmental phenomena. Development cannot be based on economic growth jumps, socio-pathological and opportunistic phenomenology, anti-civilization and anti-human norms, anti-natural antinomies, disinvestments, false rhetorics, pageantry, fraud, inequalities, exploitation, unilateralism, monotheism, domination, demotivation, or democratic and cultural deficit.

A rational and sustainable *choice* of development path is carried out by governments. They are responsible and obliged to eliminate the underlying causes that have led to a permanent crisis. One of them is the wrong choice of priorities, in which the *goals* (overcoming the crisis, economic growth, efficiency, development) by *means* (liberalization, privatization, democratization, deregulation) have been teleologically replaced. In that choice, there was not enough room for knowledge. It (creations) have been replaced by the improvisations of Jakobin style. On all levels, especially in the part of negative staff selection. Even at the scientific level! Therefore, in some environments, viewed through investing in it and real (but not fake) authorial references, science is not respected.

Knowledge is the only unlimited resource, the prerequisite for creative potential, the best and safest factor (path) of difusing the crisis, and seeking alternative paths of socio-economic development. When the *debilitation* is allowed at any educational level, and especially by scientific permission, then it spreads like a weed in all ranks of the society. This deepens the crisis. Perhaps making (people) stupid suits someone?!

Politics is a human activity performed in order to create, implement and/or modify the rules governing people in certain areas. It is a process with contradictory and paradoxical outcomes. The emphasis on the rules is to stress the institutional importance and policy character (regulatory, mediatory, stimulatory, coordinating, limiting...). Politics is a declaration of will, an agreement that shapes the mindset of

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because it is one of its forms and ways of manifestation. The quasi-market (institutionally deformed and privileged) represents the opposite of freedom. It promotes constraints and deformations. The regulations (institutions) must prevent market distortions, and force innovations.

actors in the decision-making process. It generates attitudes, principles, and criteria of behavior, which serve to guide the decision-making process towards reaching the pre-set goals. It refers to the rules (procedures) of the art of governance, the conduct of public affairs, and the management of resources. Decision making is a primary apparatus and a factor of influence on a social change. It developst in accordance with the tasks and needs of a specific situation. Politics always aims to implement a certain *order* in the society or in some of its subsystem, which operates on the basis of social consensus, regardless of whether it has a pluralistic (institution, interest, party, democracy) or a monistic character (centralization, total control, interest privileges).

Politics is directly related to ideology as a system of ideas (philosophical, social, political, moral, religious, party, etc.), represented by individuals and groups. This synergy enables the establishment of certain collective understandings through systemic democracy or totalitarianism. In doing so, very important is the influence of institutional mechanisms (formal, non-formal and alternative), which have the task to regulate relations between physical and legal persons, and basically to enable the *control of controllers* (management). Political metaphors, using a specific party engineering, create a chain symbiosis of lies, injustice, manipulation, corruption, crime, abduction, abuse, hypocrisy, cynicism, mythology, cult, irresponsibility, selfishness, social pathology, arrogance ... and many other negative manifestations.

This symbiosis acts as a chameleon with its use of ideology, party slogans, voter's will, identity symbolism, and so on. It creates the contradictions between hedonistic-privileged individualism and disenfranchised masses, fictional pluralism, and real quasi-monism, a non-transparent and anti-developmental side for national resources, the well-being of nations, a cultural and institutional environment, rational behavior and the overall social environment. Because "creative demolition" (J. Schumpeter) is replaced with destructive "creation" as a devastating individualistic alternative.

The people compare the politics to a prostitution, because it is full of empty rhetorics, fake promises, manipulation skills, vulgarization of ideas and facts, demagoguery, non-transparency, etc. The functional field of politics lies within blurred, imaginary borders, between visible and invisible, real and unreal, rational and irrational, formal and essential, interestive and altruistic. Eternal, intangible, untouchable, and invisible (but easily explained) laws of interest determine the power, dependence, blackmail, domination, dictation, hypocrisy, selectivity, human mindset and behavior, obedience. All this challenges the freedom of thought, knowledge and honesty, polarizing the (misused) state and (impoverished) society, plutocracy and democracy, elitist hedonism and mass survival. The influence of political processes must not directly and rent-oriented impact the developmental economic policies and processes. Politics must not be fate and privilege, but a collective achievement of set goals (not individual goals)! To reduce, relativize, and control the dominance of politics over economics, the dominance of institutions over politics and economics is required. Real, powerful, high-quality, and efficient institutions must be treated as

a social good, because they effectively enable control over all social processes and eliminate possible devastating effects and tendencies.

In the literature there are hypothetical economic theories, which interpret and reveal the essence of politics in general (means of achieving power and an imperfect *process of exchange*). However, they do not consider politics of particular fields (i.e. higher education policy). Such are the J. Buchanan's social selection theory (regardless of its basic motive, related to the negation of the state-regulated institution efficiency), economic theory of politics, and economic theory of bureaucracy. These are attempts to explore the *political market*, where greedy and privileged individuals realize their own interests, which they can not achieve in ordinary market exchanges. It has been proven that *political decisions* can strongly affect the redistribution and allocation of resources. In a "natural way", with the logic of organized interests of small, privileged, and lobby groups, political power can go into the hands of political leaders as their representatives.

By activating the *privilege mechanism*, in time, their economic interests can be realized, as well as the exploitation of large latent groups (collective alienated individualism, mass and violent, not-on-market and undemocratically "freed" from real and propagated economic freedoms). No matter how drastic are the consequences of the crisis (which always involve many components: political, economic, institutional, legal, cultural, etc.), they usually don't affect those who caused it, they harm the people who did not contribute the crisis (excluding their voting choice). It is logical that the *causers of the crisis* want to cover their motives, which often have the signs of interests and ideology.

In the post-socialist period has been created a system of *alternative institutions*. These include various socio-pathological phenomena, gray economy, the use of false monistic recipes (derived from the context of a complete theory), compensation of strict formal rules by their non-execution, the undermining of property rights, the formation of various stereotypes of behavior, etc. Turning around the essence of institutionalization as a socio-economic "technology", quasi-reformers on the wings of the alleged "methodological individualism" (which also includes neoinstitutionalism!) have imposed an individual "efficiency and rationality" over social. Then, by various methods, they transferred a significant part of the social (state) property into private. In the three-decade transition process, key economic and social institutions have failed. *Massive* economic efficiency (as a target function) was not achieved because the wrong shock-strategies and partial institutional transplantation of monistic "exemplary models" were applied. The "*institution growth*" (V. Polterovic) of "*alternative institutions*" was negated.

The causes were political and interests, using methodology of reproduction of *institutional dysfunctionalism*: paternalism, nepotism, passivity, tradition to violate legal norms, possibilities of safe and well organized manipulations and compensations, log rolling, lobbying, rent-oriented behavior, etc. Rapacious practice and apologetic economic theory have destructively rejected Hegel's slogan that instituti-

ons are “*the firm foundations of the state*”. The state was treated as a public good that needs to be destroyed and reduced to a minimum. This was a condition of fast enrichment and long-term protection of acquired wealth. Under the aforementioned syntagm, economic radicalism (neoliberalism<sup>15</sup>) was carried out.

Nominally, normatively, and formally there were democratic and economic institutions. However, they often served as a cover for expressing and realizing the interests of distribution coalitions. The new “elites” were not for strengthening the infrastructural and institutional power of the state, society, and economy. They created a system of “*alternative institutions*” through which they carteled the market, and parasitically developed the influence on public policy. They substituted the promised competitive market with monopoly quasi-competition and illegal (non-market) means of appropriating state property and/or rent. Individuals “created” an enormous wealth and enlarged it. Their network formal and informal power was reproduced and made impossible by real institutionalization, largely determined and dosed by parties (coalitions) in power. Alternative institutions turned the story of institutionalization into its opposite.

Instead of stabilizing the economic environment, it has been destabilized even more. Instead of incremental institutional changes, they have been negatively substituted by “alternative” quasi-institutionalization. Dominating political (party) interests have been functionally subordinated to all economic institutions, especially in the part of property rights redistribution. Control and monopolization of all important economic processes and economic policies were conducted. The superiority of “alternative” over formal institutions had a high interests sign. “*Economic imperialism*” has been copied from neoinstitutional theory into post-socialist practice. Big problems and deformations (with an uncertain expiration date) have caused *new dogmas*. An unsuitable civilization environment, ethatist traditions, the introduction of a new elitist order, the use of the state as a cover for expressing expansive nomenclature interests, non-market appropriation of state resources, the “absolute truth” propaganda, oportunist behavior, and the domination of alternative institutions have caused the developmental delay.

The past century has convincingly confirmed that paths of progress are marked by turbulent, contradictory, and crisis events, changes, and processes: social, economic, scientific, institutional, cultural, technological, etc.. But a *crisis* continues in this century, becoming a recognizable symbol of our era (post-socialist), often viewed as isolated, economically, although it is always wider and more general, more social. It is difficult to prove which factors are causing the crisis, how and why it

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<sup>15</sup> “*Corporate mercantilism... a fundamental political paradigm of our time, which serves for domination*” ... “*capitalism with the gloves off*” (N. Chomsky), “*eminently hegemonic order*” (S. Elakovic), “*market fundamentalism*” (J. Stiglitz) , “*third world religion of the 20th century*” (F. Wertheim), “*ideological discourse legitimizing the strategy of imperial capital*” (S. Amin), “*geopolitics of chaos and the empire of liberalism*” (I. Ramonet), “*externalization of unfavorable operations, own costs, crisis, difficulties, and issues*” (L. Oxelheim), and the philosophy “*private good, public bad*” (P. Krugman).

begins, manifests, and develops, when will it end. Society and culture are an *outline* for everything, therefore the crisis must be analyzed within that context. A lot has been written about economic crises and their causes.

The latest economic crises (global and national) are directly and predominantly linked to the institutional deficit and/or fiasco, which covers many causal and manifestational phenomena and processes. All contemporary crises are a Pyrrhic victory of speculative and opportunistic over entrepreneurial behavior, of asymmetric information over institutions, of non-transparent and privileged public sector over taxpayers, of neoliberal monism over institutional synergy, of market disorder over state neglectance (selective absence of regulation), of concealed economy over real economy, of risk creating over risk managing. Generally speaking: the victory of various forms of violence over freedom (in the most positive North's definition of these words).

When all forms of *institutional control* disappear, or they become deformed and transformed into their opposite, the crisis emerge... To overcome the crisis, we must learn the *lessons*. This means to understand the objective impossibility of development, which is based on the fatal institutional monism and the domination of narrow interests of the rare and privileged individuals, who are often generated via parties and lobbies. However, overcoming the crisis is not decided by the majority (the people), but by the minorities (the power), and not by a positive, but by a normative economy. Hence, decision-makers *cause the crisis*. The current crisis has not been predicted by economists either in time or intensity, despite general predictions of individual authors.

The real causes of the crisis, the nature of its global, rapid, and strong expansion, the inability to adequately cease, the inapplicability of standard macroeconomic anti-crisis models, and so on, have not been sufficiently explained to date. Therefore, is necessary to review the key theoretical principles of contemporary economic science? The global crisis was accompanied by *five paradoxes*, which prevented the modeling of economic reality (essentially: *development*):

- a demand crisis occurs in the face of a long-proclaimed crisis of resources (stimulation of economic growth);
- the virtual economy has "outplayed" the real economy;
- the financial institution of mortgages (for centuries the most reliable) collapsed;
- institutional investors behaved quasi-institutional;
- under the pressure of greed and institutional deregulation, the institution of formal control failed. It is more about a *redistribution crisis*, rather than a production crisis, because the decline in consumption and investment was much higher than the decline in GDP.

It is about a *systemic character* crisis, which occupied (and emerged in it) a contemporary mutant ambient (neoliberally colored). It dismantled and deepened the distorted criteria and system values. The crisis escalated through a combination of

political, economic, social, institutional, technological, and environmental impact factors. That has proved the necessity (imperative) of institutional interventionism (the state), and therefore the need for *institutional pluralism*. When the developed economies experience the crisis, Z. Baletic (2009) points out that "*other mechanisms of social cohesion are being sought and activated, which are by their logic inconsistent with capitalist values... Liberal globalism quickly abandons the globalism, strengthening the state and regional intervention mechanisms and regulation*". Certainly, these mechanisms and measures are completely opposite to the neoliberal. On the other hand, less developed and/or underdeveloped economies had much bigger economic and social problems in the period of crisis, in addition to the "*following the leader*" strategy. They are linked to their own crisis and additional effects of importing the global crisis.

These are universal problems of long-term expansion of domestic aggregate demand, which elementarily generates foreign trade and internal imbalances and deficits, increasing general indebtedness. All this have disturbed the existing models of alleged economic "growth", turning them into their opposite. The burning issues were solved in the difficult period of intensified crisis, when Krugman's "*vicious financial circle*" have already existed: *as potential lenders lost confidence, the interest rates that they had to pay on the debt rose, undermining future prospects, leading to a further loss of confidence and even higher interest rates.*

All the economies in crisis have huge economic problems in common, which were directly reflected on the problems of social sustainability of the population. Thus, the crisis have imposed the need to eliminate social tensions. This gives a special dimension and uniqueness to every economic crisis. And by that, the successful and timely applied anti-crisis policies differ from unsuccessful and palliative economic policies. If they want to avoid greater social tensions, *social concern* in crisis periods must prevail over *insensitivity of elitist interests*. Administrative sense for growing problems must play an important role. And that is the substitution of quasi-legitimacy of anti-institutional absolutism with effective institutional pluralism (as seen in developed countries). The story about pluralism (of economic institutions, interests, politics, democracy, etc.) is often replaced by *party centralization* and almost *total control*, which always disables the efficiency of economic policy. This transforms the story of institutionalization into its opposite, so instead of stabilizing the economic environment further destabilization follows; and instead of incremental institutional changes, they are negatively substituted with the growth of crime rate, unemployment, insecurity, apathy, etc.

Regardless of the opinion that *economic growth* can only be achieved *only after* the adoption of stabilization measures and economic liberalization (M. Bruno), we point out the view of J. Kornai, who prefers the economic growth priority rather than the stabilization of economic conditions: "*Economic growth should be stimulated not when favorable conditions and stabilizes the economy are created, but when in a crisis (the author's note). The consistency of the government's choice - 'first stabilization, then economic growth' - is not good. These two tasks need to be addressed at*

*the same time ... If we want to go into the growth phase only after solving all the tasks, we will have to wait the whole eternity."* The crisis is the *ora* (latin) for the upheaval, for the *reverse substitution of priorities*. The necessity of radical reforms was mentioned both in socialism and the transition period, which lasts for three decades. All attempts were unsuccessful. New time requires new mindset and behavior.

They are reduced to *adaptation* towards civilization achievements, in terms of inclusion in contemporary world processes and flows. Changes are quick and elusive, time passes by, but there is no respond to numerous and big challenges. Fake and consumerist convergence can not substitute scientific, economic, democratic, or institutional. Even the economic necessity is not sufficient for changing the value system. The quick and indiscriminate destruction of everything we worshiped for decades has returned as a boomerang. Now many people nostalgically remember what they had (and lost). Happiness is often a walk in the ruins of own happiness. Like killing time when life gets boring.

Clearly, "*systemic changes are the only possible source of growth*" (L. Csaba), while key systemic changes are institutional (when they are - real). Systemic immutability is inspired by an inadequate civilization environment (according to Huntington), ethatist traditions (according to Berdyaev), neolittist ambitions, clouded consciousness, institutional deficit, reproduction of monopolistic and recombinant behavior, socio-pathological brake mechanism, and ignoring of exemplary models. The developed world is arrogant and imperfect, but powerful. We have to adapt to it, sooner or later. *Civilization adaptation* is imperative, because it means survival.

Confrontation is the privilege of unreasonable. The socialist-self-governing experiment is far behind us, but many of its ballasts still remain. Especially the mindless rhetorics, modernized and "refined" by reactive quasi-neoliberal promises. Time, lives, and material values have been wasted, life standard is intolerably low. The past was ugly and sad, the present is similar and worse, and the future is uncertain. Therefore, postponing changes means delaying progress. When ruinism begins to dominate over creativity due to monstrous, self-centered, and narrow-minded demand of time - then starts the enrichment of the rare and privileged individuals at all costs, and the farsical and totalitarian system of demagoguon begins to operate. It efficiently destroys all forms of competition and freedom, and reduces them to fictitiousness. Freedom means good rules, not good players.

Reducing the choices and freedoms in reality draws most of the population from property, employment opportunities, decision making, etc. Consequently, the complete economic behavior, which determines the inefficiency of economic and social system, is also reduced. The rhetoric of cheap promises degrades and demystifies the reforms. Frankly speaking, reform processes without results (or with catastrophic results) are a combination of fraud, property robbery, violence, and an effort to preserve and increase the acquired assets. Whenever the formula of success is removed from the field of labor, order, economy, and science in the pseudo-domain, there are



major problems and long-term crises. When reforms are reduced to abstract and unrealistic indicators, ambitions, and promises, failure is inevitable. It is forgotten that even the best-designed reform programs and development strategies are failing because of their non-implementation. When social processes get out of control, it is difficult to repair them. Much faster and easier is a destroying process than a building process.

It is not clear how it is possible for the society and the government to permit the operation of retrograde processes in all subsystems, on the principle of merged opinions and the domino effect: dogmatization in politics, economic tycoons, debilitation in higher education, quasi-liberalization, quasi-institutionalization, monopolization, and improvisation in all domains. Regular and strict monitoring of social and economic processes is necessary. It involves reforming the “reforms” and institutionalizing the “institutionalization” in terms of reconsideration, correction, and prevention of "destroy rather than build".

Transition and institutionalization, as its presumption, could only be carried out realistically to the extent and speed allowed by the existing social, economic, political, social, cultural, ethical, and other conditions. Since they were unfavorable, the transition did not turn into institutional innovation, nor even into institutional adaptation, but it caused many additional problems through various quasi-institutional imitations and improvisations. The necessary institutional complementarity (pluralism) has failed. There is no enigma or eureka here. There is only a fact that we should not talk about work, order, knowledge, responsibilities, morals, institutions and reforms, but put them into practice.

Transition has caused many problems, among which three can be distinguished for their importance:

- the antinomic process contained in the enrichment-poverty relation has been strengthened, determining all the flows of transition, and being the result of another antinomy of a global and local character, which exists in relation to protectionism (towards the people) - neoliberalism (recipe for the people);
- monopolistic interests have crushed corporate and entrepreneurial interests, and contributed to turning many foreign investment into disinvestment; and
- knowledge (human capital) has moved, stagnated, and declined due to its negative attitude towards it.

Institutions are “*norms of behavior, conventions, and self imposed codes of conduct*” (D. North). It is symptomatic that in the underdeveloped countries (which include most transitional countries) people (especially nomenclature of government) avoid constraints and strive for power. Although it is known that institutions in practice provide positive results, reduction of transaction costs, better defining, realization and protection of property rights, improvement of regulatory frameworks and procedures, faster, greater, and more transparent flow of information, etc. The foregoing raises the question: who and why tolerates and allows anti-development, anti-

civilization, and negative effects of the so-called alternative institutional arrangements, which in practice hinder institutional changes and growth, creating a vicious circle of economic dysfunctionality and unbalanced social interactions?

The problem is never in the imperfect implementation of rules, laws, and norms, but in the degree of imperfection. It depends on the political structures (power), because they formulate the economic structure, economic policy, and property relations, through which they shape the functioning of society. Practice has proved that competition, in all fields, is always an issue. Institutional development is one of the basic and universal civilization *criteria for progress*. It implies a regulated institutional environment (a set of basic political, legal, social, and other rules governing economic activities), and the existence of an institutional arrangement that regulates ways of cooperation and/or competition between economic entities.

If there is a *deficit of institutions*, which serve to reduce the uncertainty of human interactions, opportunities for solving social and economic problems are also reduced. Many authors cite elements that influence the formation of institutions and the quality of their actions: organizational and democratic level, the mode of governance, the political system, the foundations of legitimacy, cultural and structural factors. They emphasize the essential importance of harmonization and synchronization of the above mentioned elements for economic growth and development. Institutional development generates a wide range of influences, of which the dominant interaction is between politics and institutions. Regardless of the fact that it can be characterized by various forms of *backlinks*, the politics undoubtedly has a greater impact on institutions, than vice versa

I have repeatedly written about the *double standards* which I have identified in the uncritical and unilateral enforcement of neoliberal concept of the development of post-socialist transitional countries, its theoretical vulgarization and practical abuses. Those "gurus" I have named alibi and/or pseudo-liberals due to inconsistency, apologetics, and interest motives. In my attempts to prove it, among other things I have also written about:

- the need for complementarity of economic freedoms and institutions, because it is the only satisfactory way to solve the eternal problem of adjusting the freedom of choice of individuals with collective interests, and
- a discrepancy between rhetoric (which proclaims the principle of market competition) and practice, which drastically reduces the principle, as it balances, if necessary, between the use of neoliberalism (towards the rich minority) and protectionism (towards the poor majority).

I have always preferred a compromise between individual and collective interests, on which many other authors insisted. It directly contradicts the interests of privileged individuals who are in power or close to it. Any consideration of a "*collective dictation against an individual*" is inconsistent and one-sided without a proper treatment of dictatorship of privileged individuals in relation to the collective.

The latter exists where alternative institutions dominate over formal and informal institutions. They always enable the paradoxical enrichment of a privileged minority, by replacing old dogmas with new dogmas and state dictates by the dictate of “new entrepreneurs” (*nouveau riche*).

*Panta rei*, apart from the dominant and retrograde principle of enrichment at all costs. Since ancient times they have been using same slogans, promises, dominance of politics over the economy, crisis reproduction, reform apologetics, and palliation. However, every mythology, even neoliberal, is *irrational*. Economics presumes rational behavior. Therefore, there is no scientific (nor practical) answer to these questions: who benefited from the uncontrolled and neoliberal “*liberation of the economy*”, and who actually restricted economic freedom?

Neoliberal theorizing idly revolves around in an abstract and vicious circle: *individualism - freedom - market - competition - private property - "natural condition"*. Instead of explaining the logic of the vicious circle of crisis practice, to which they have substantially contributed, pseudo-liberal economists explain the known and appealing theoretical constructions that are far from our economic and social reality. There are no secret causes of the crisis. Everything is clear, and especially problems, which are called *monopolies* at all levels, and *weak institutions*. This has strengthened the quasi-institutions such as the “concealed economy”, “rapacious privatization”, the negative selection of personnel (mostly party), socio-pathological braking mechanisms, and wealthy dictators, in the conditions of a long-term neoliberal “*rhetorical facade*”.

The uncritical and interests absolutism of individualism (vulgarized *economic liberalism*, which has long been absent in developed market economies) directly contradicts *institutionalism*, in which individual rights and economic freedoms are manifested and realized. A one-sided reheating of primitive quasi-neoliberal economic mysticism is the denial of institutions as proven stimulators of economic growth and development. What is the point to propagate and glorify private interests, private property and initiatives, economic freedoms, etc., which are practically accessible only to a narrow circle of people, due to unequal conditions and access to resources (existence of monopolies, privileges, non-market ways of acquiring wealth, etc.)? In addition, there is reduction in mass proportions, as well as notable violence against the political, social, legal, ethical, institutional, and economic interests of citizens. That is why I named that quasi-economic and anti-development philosophy an *economic clockotrim* (selling snake-oil).

Economic *coercion* does not have to arise from a state, but also from an individual source. Experiences of post-socialist transition are a good example. In socialism, good ideas were guided by wrong people, also individuals, but under the auspices of state policy and monolithic parties. Post-socialist neoreformers are individuals, sheltered by party and/or scientific titles. They conceptualized the individualistic basics, which should apply to all. But they do not apply, they correspond only to the creators of the new experiment - quasi-individualism (vulgar neoliberalism).

ralism). Hence - there is no *individualism of all*, only *rare*, privileged, not-on-market selected. There is an *antagonism* between freedom of the rare and the mass non-freedom. How did that happen?

In addition to opportunistic and rent-oriented behavior, there has been a substitution of civilized values with anachronous pseudo-values, ideals of vices, institutional control by party-individual control, one dogma and monopoly – to others, the development state - the rapacious state. In one word, there has been from the top imposed neomilitaristic, and paradoxical opposition to the individual and the institutional.

For a long time, there has been a phenomenon in economic science (which has grown into the practice of some "researchers") in order to name things wrongly, to ignore dialectics. A vicious circle of *apologetics* has been created, which most often coincided with *vulgarization* (more conscious and interest-oriented than unconscious and altruistic). Two economic systems and their influence on the official economic policy have historically shifted through various theories. Those are: liberalism and dirigisme. What historical coincidence and irony of fate: the era of *laissez-faire* liberalism ended in 1873, and 100 years later (1973) ended the period of state interventionism, and began a period of neoliberalism!

Clearly, there is no "*economic theory for all aspects of life*" (J. Hicks), and economists have "*often made mistakes*" (Ashley), and they do not have a "*unique opinion*" (G. B. Shaw). But, there are some key economic knowledge and behavioral rules (we call institutions or otherwise), which are not controversial. One of these knowledge and rules is *institutional pluralism*.

J. Schumpeter argued that economic theory suffered from *Ricardo's sin*, since it was formed on abstract assumptions, without an empirical basis. A. Wald thought similarly: "*Economic phenomena are of such a complicated, involved nature that farreaching abstractions must be used at the start merely to be able to survey the problem.*" Nowadays, this can be added to the so-called *Krugman's sin*, because there are theories that describe reality better than standard theories, however, they are not used in the practice of economic policy (e.g. neoinstitutional theory). If this is added to "*opportunistic ignorance*" (G. Myrdal) and the *interests orientation* of economic policy makers, it is clear how and why different economic theories are used for different purposes, depending on the political (apologetic) criteria. There is also the selective (alibi) application of theories (the method of double standards) - one for internal and the other for external use.

Transitional apologetic dogmas had an uncertain length of time and distorted value criteria. P. Murell noted "*the most dramatic episode of economic liberalization in economic history.*" Making economic decisions was under the influence of powerful administrative-party groups. Some "*players*" and their connections dominated over economic and other institutions as *uber-institutions* (alternative). This deformed the overall economic reality and the corresponding institutional structure. Therefore, the nomenclature-criminalized and rapacious "capitalism" managed to transform the

state into a *patron-redistributive instrument* in some areas, which served to certain (predefined) users (the privileged).

Political competencies are not always regulated by the rules of choice, and politicians compete for obtaining private rent (P. Earle). Libertarianism (L. Reed) turned upside down the Kantian concept of “*respectful treatment of persons as ends rather than merely as means*”. Politics (directly or indirectly) manages to ideologically indoctrinate society at various levels, i.e., “*the idea of paradigms as the basis of scientific research, and the idea of scientific communities, as the units responsible for paradigm-based research*” (T. Kuhn).

A good example is the decades-long discrepancy between monistic neoliberal rhetoric and quasi-neoliberal reality, which has caused enormous damage to nations and national resources. At the same time, the total damage to society and marginal benefits for “capable” (“resourceful”, privileged) individuals increased. Subjective tendencies of the nomenclature of power, with the help of interests apologetics, degenerate the objective conditions and possibilities of choice in economic reality.

It has been proven that the performance of economic activities is more organized and more efficient in strictly defined conditions that determine them. Institutions are a set of constraints (rules, mechanisms, and norms of behavior) created by people for regulating mutual political, economic, and social activities. These are standardized, harmonized, and generally accepted patterns that regulate human behavior as a means of adapting to changes, minimizing entropy, risk, and uncertainty. They represent regulators, coordinators, and limiters of economic activity, which are constantly repeated, containing the rules of conduct and mechanisms that ensure their realization. Institutions are a connective tissue in the economic and social system (*institutional synergism*), which provides healthy institutional competition (*institutional pluralism*).

They preclude the metastatic forcing of individual institutions (*monism*), which leads to undesirable and counter productive quasi-institutionalization. Since formal, and consequently informal institutional matrices mostly determine parties in power, it is logical that practice can create unfavorable development conditions, in which distribution coalitions can cartelize the market and parasitically develop an impact on public policy. Therefore, it is possible to substitute the market with monopoly quasi-competition and illegal appropriation of state property and/or rent.

The aforesaid can be achieved only in the conditions of the state financial regulator *fiasco* (and the rule of law) in favor of party monopoly, control deficit, institutional vacuum, and programmed selection of economic freedoms. When economic and institutional dialectics shift, and instead of good “*rules of the game*” (of institutions) the “*good players*” start to dominate, they forget the Pareto optimum, or the limitation of individual freedom in terms of legality, morality, loss of damage to others, etc. Then comes the interests greed, which turns into an evil elitist urge (driving force) for the quick realization and increase of wealth, consequently and power. This creates alternative institutions of *total control*. Since the ideology of

totalitarianism and domination is a common denominator of all forms of imperialism, a conditional conclusion is that *imperialism* of a neoliberal type has been formed in some transitional countries. There have been colonial (geographical) and neo-colonial (industrial) colonialism. In this context, the neoliberal type may be characterized as a form of *postcolonial colonization*, however much it resembles pleonasm

If nothing else, the neoliberal order has an imperial character due to simultaneous double actions: the *wastefulness* of developed (rich) and the *survival* of under-developed (poor) people. All empires have historically collapsed and/or shifted, as well as ideologies, formations, totalitarianism, dominations, and exploitation forms. Their remnants remain for some time. When will it come to a real institutionalization, humane, and social responsibility - it remains to be seen. The level of real human freedom, democracy and social development will depend on it. All monisms, mythologies, ideologies, and dogmatisms are harmful, since they are always based on interests rhetoric of double standards.

When perverse individualism (of the rare and privileged “*effective owners*”) is imposed as a social and civilization norm, and the basis of formal *institutional monism* (as an ideological basis of economic neoliberalism), it is clear how and why social and economic *clockotrim* comes into being (in terms of an orchestrated and long-term “*selling snake oil*”, without consequences for sellers). It is in direct contradiction with *institutional pluralism*, which characterizes all developed countries and economies. Here should be sought the *main cause* of the creation and strengthening of the socio-pathological braking mechanism of transition.

Quasi-neoliberal dogma, utopia, and illusion (as institutional monism, or “*market fundamentalism*”) on individualism is methodologically, epistemologically (understood as a difference between truth and “belief”), and ontologically in a constant (inevitable) conflict with neoinstitutionalism (as institutional pluralism). It corresponds with the general neoliberal platitude of the so-called “*mini state*”<sup>16</sup>, which is *methodically inconsistent*. It is not clear whether is it the social state (which would imply social inequalities), or the rule of law (which would mean a minimum rule of law, the reduction of economic freedoms and property rights, and the lack of the required specification of property rights and their effective legal protection), or the *political state* (which would mean the minimum of parliamentarism and democracy), or the *economic state* (which would mean the reduction of macroeconomic policy instruments and the suppression of an integrated market and healthy competition).

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<sup>16</sup> The theoretical concept of the “*mini state*”, which “*ensures a stable legal and regulatory framework, so that individuals can do their business without excessive political interference*”, proceeds from the traditions of Locke's liberalism, in which the idea of society with the emphasis on individuals is developed, separated from the state. One should not forget the question of J.S. Mill about the balance between individual independence and social control, as well as the correct understanding of R. Nozick that the “*minimization*” of the state is justified when it is “*limited to narrow functions of protection against violence, theft, fraud, enforcement of contract, and so on.*” The statement by A. Smith is also significant: “*By serving his own interests, the individual for law serves the social, public interest*”. The post-socialist practice should be analyzed through the prism of the above-mentioned understandings.

On this dogma was designed a *strategy* of redistributing wealth to the benefit of privileged and greedy people. If so, then one can ask a logical question: is all this (quasi) neoliberal scenario possible without participation (and approval through acting and not-acting) of state people and organs.

Let us remember that liberal and Marxist economic theories are, in fact, only specific versions of Ricardo's abstract system. According to Marx, the state should disappear, according to neoliberals it should be *micro*. History shows that in the conditions of the great world crises, theoretical economic formulas are neglected, and attention is focused on *state economic interventionism*. The contemporary period is marked by a devastating financial and economic world crisis, in which state interventionism is trying to save the shaky economic foundations built on the neoliberal recipes. It is necessary to distinguish the original neoliberal models from the quasi-neoliberal models, as a wrong "*economic wisdom*", which has caused many social and economic deviations and led to devastated economy, rapacious privatizations, pauperization, apathy and stratification of the population, unemployment, decline in production, the criminalization of the economy and society, the deficit of the rule of law, etc.

The aforementioned "economic wisdom" does not fundamentally distinguish rapacious (privileged) wealth from the innovative (entrepreneurial), nor individual choice in the mass scale from a privileged individual choice (abuse). A strong liberal P. Krugman said: "*Freedom of the market sometimes leads in a completely wrong road ... and leads to scandalous failures.*" Neoliberalism as a doctrine, philosophy, theory and practice (monistic economic policy) has produced dramatic consequences for mankind, through the two dominant parallel processes of globalization and transition. Due to the application of quasi-institutional violence (political and economic), which verified *non-market appropriation* (in vast proportions) of organized minorities (who can do what they want, where they want, when they want and as they please) over an unorganized majority, some authors identify neoliberalism with *neodarwinism* (S. Kulic).

The reformist rhetoric on human freedom, free trade, and democracy was and remained just *an illusion and a promise*. Are there limits (moral, human, civilization, and other) and what does the concept of freedom include? Does it, for example, include the freedom of the velvet and sophisticated robbery, a "democratic" establishment of a totalitarian system of power at all costs, the application of "recipes" inherent to the system, all of which looks like "*new barbarism*" and the corresponding imperial "culture"?

Neoliberal recipes are based on elitist and greedy *concepts of power*, which tend to turn into omnipotence, that is, a total domination (of the rare states, parties in power, and privileged individuals). The practice has shown that K. Popper's paradoxes can not be solved without the presence of efficient and developed institutions. Although they point to the need of a "*mini-state*", they do not prove that there are defined boundaries of such a state. On the contrary, they create conditions for new

forms of totalitarianism and economic reductionism. The term “liberalism” was abused. I. Herder correctly stated: *“When the meaning of the term broadens so that it begins to mean everything and nothing, then the moment occurs when it does not really mean anything.”*

The maximization of profit at any cost, regardless of its origin, is the most important principle and value criterion for a neoliberal economy. It has not brought economic prosperity in the mass scale anywhere in the world. Neoliberal ideological myths are the ground for the globalization process and post-socialist transition. Their similarities are reflected through dominantly expressed interests motives of “reformers”, and the application of neoliberal economic recipes. The vulgarly applied theoretical neoliberal economic model has balanced between myth and reality, between the application of dual standards strategy and pseudo-liberal interpretation of the relationship between individualism and institutionalism. There must not be contradiction between them.

The scientific-ideological, phenomenological, and practical phenomenon of neoliberalism is not accidental. It has clear sources, roots, and motives. It has appeared during the breakdown of socialism, as a reaction to the long-term rule of vulgarized and dogmatized Marxist political economy. In the absence of an original own developmental concept, market “reformers” have opted for a new and more sophisticated vulgarization, this time of the alleged “Western neoliberalism”, which protected the interests of large trans-national capital, because its borders were a development barrier. Unsuccessful post-socialist modifications were made according to other (customized) recipes, and were functionally incorporated to support the philosophy of large-scale capital in global and local relations.

The methodology of massive voucher privatization was a very efficient and quick way of redistributing national wealth into the hands of narrow groups of individuals (*achieving illegitimate benefits*). Ideology was based on promises and slogans of massiveness, ensuring equality (again!), market competition, economic freedom, and so on. Everything was grossly dissarranged. The myths of globalization influenced the monistic myth of neoliberal economy. The *first* is the view that globalization is a general framework (template) for creating a new world economic order, without crises, because information as the main product of “new economy” does not disappear when consumed, so their value is not determined by the cost of production, but the number of subscribers which is constantly growing.

The *second* is a romantic idea of the market as a perfect information, allocation, and institutional system, which economic reality has not confirmed. It has been proven that the developed market is characterized by information asymmetry. The production of social goods, especially those related to the human capital development, must not rely on market laws. The market can not solve numerous energy, environmental, demographic, and other social challenges of globalization. Even the creator of the so-called “*open society*” G. Soros acknowledged that market fundamentalism had become “*the dominant a priori ideology, which presupposes a painful substitu-*



*tion of human values by money.*” The myth of market economy emerged as God, whose religion is neoliberalism (faith in the market and “capable” individuals), and the priests are interests inclined, and privileged individuals.

M. Mesaric has generalized the view of many authors in a “*global free moral ideology*”. It reflected in many local environments. The difference is “only” in the fact that at the global level benefits from its application were transnational corporations as “*market marionettes*” (J. K. Galbraith), while nomenclature of power and their lobbyists have benefited at the local level. Victims (“believers”) were numerous. It is not just about poverty, but also about stopped development, the lack of consistent development strategies, crisis reproduction, ecological catastrophes, the spread of uncertainty, etc.

The third myth is that national states have allegedly lost their economic sense, so less state interference in the economy gives them greater chances of getting out of the crisis, and the rate of economic growth is inversely proportional to state economic activities. But “*a holy place does not remain empty*”, and instead of state and international organizations, speculative and terrorist groups operate in many areas, which the market can not control. The “messiahism” of economic neoliberalism as an incarnation of unlimited market power and the “ideal” way of organizing the economy is also an institutional-monistic myth. It rests on a system of discriminatory and double standards: rhetorically designed futile imaginations and practical realization of narrow individually motivated interests.

The “dictatorial” application of quasi-neoliberalism in the countries of post-socialist transition “capitalism” has turned out to be more vicious and ruthless than the socialist state dictate, due to, among other things, neglecting and degrading humanism, many human and social values. Instead of the propagated “*trickle down*” effect, the neoliberal “*dictatorship of capital*” (J. Ziegler) and the manipulation of monopoly (G. Myrdal) came to life, simulating democracy. Scientific neoliberal model was replaced by neoliberal *mythology*, which seemed convincing and messiahistic to the population, especially in the part of faith and hope for more freedom, private initiative, private property, and appropriate motivation and efficiency.

Reduced individualism (of the privileged) quickly became the ground for formal quasi-institutional monism as a theoretical and ideological basis of neoliberal economic policy. The main cause of this phenomenon is the paradoxical need for public economic policy to serve private and party interests.

In the conditions of pronounced post-socialist social and economic *non-system* (organizational, institutional and normative vacuum) it was not possible to form effective social and economic institutions. The quasi-neoliberal experiment in post-socialist countries has not changed anything in terms of economic growth and development. Why? Because the appropriate *instrumental* (institutional and systemic changes, or reforms) were not carried out. However, the (probably) planned task was realized, based on the redistribution of wealth and power in favor of nouveau riche

and privileged "elites". The transition has not solved many of the old problems, and has created new ones.

Special *contradictions* could be seen between their leaders (carriers, creators, subjects) and outsiders (observers, audiences, objects). They resulted in palliation, failure, an increase in the criminalization of society and opportunistic behavior. All this has been sublimated in the general crisis. They have made transitions lose the epithet of universality, integrity, and competence. Therefore, the confidence of the mass in their positive outcome has been lost. The boundless quasi-neoliberal dynamics of experimental deregulation breached the moral and institutional limitations of economic reality and rational human behavior. Because of that, transitional reforms need to be seriously implemented. Government structures have opted for recombined institutions, which have enabled the establishment of various forms of quasi-institutional relations. Forcing institutional monism (market type) has caused enormous consequences of the crisis.

Various market restrictions have contributed to the boom of uncontrolled market forms, which do not have any common elements with an institution of effective market regulation. There was a logical consequence - the crisis elements were *reproduced* (low standard of living, social stratification, poor motivation system, unemployment, decline in production and all economic indicators, rapid social pathology, criminalization of economy and society, systemic corruption, gray economy, insufficient government rights, etc.). That has deformed and reduced economic reality and the general institutional structure.

These conditions are characterized by an insurmountable gap between suppressed massiveness and privileged individualism, which exists parallelly with the debt dependence growth, inefficient models of governance, systemic corruption at all levels, and many other social costs of anti-development strategy. In every respect, this is an unsuccessful experiment, instrumentalized with futile academic discussions, apologetics, insincere manipulative and hypocritical stories about freedom and the market. Deficit, imitation and/or fiasco of formal and informal institutions allows the rule of alternative institutions, leading to various social and economic disorders, and retrograde processes. Controlled, complementary, and interactive functioning of all economic institutions is an imperative of time and there is no alternative. Instead of an experiment, it requires an instrument called *institutional pluralism*!

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