Summary

Deeply rooted traditional values, specific and long drawn collective memories, ethnic heterogeneity and the egalitarian syndrome make Serbia a particularly inimical environment for privatization and other undertakings meant to transform the system into a market economy. Both political elites and the broad public have their – though distinct and evidently separate – reasons to oppose privatization. At the same time, political pressures from abroad and the declaratory effect of pronouncements for modernization make it attractive to produce the semblance of a determination to change the structure of ownership and allegedly to modernize the society. The resulting set of interacting forces is quite complex. The actual resistance to privatization manifests itself in obligating the buyers to adopt additional duties in the form of so called social and investment programs. These programs proved to be quite effective in complicating the privatization and slowing it down. The insoluble problem of finding the trade-offs between the purchasing price and each of these programs arose. It turned out that the state and its bureaucracy – true, contractually – took it upon themselves to determine how much should be invested in each privatized company. The government has neither the motivation nor expertise, and not even incentives to acquire the needed knowledge, for a proper carrying out of these functions. Had the government been able to play successfully the roles of manager, investor, innovator and the entrepreneur, privatization itself would not be necessary and would in fact be counterproductive.

A further area covered by the paper is the set of economic and social factors underlying the opposition towards privatization and making it slower in relation to how it unfolded in the comparable countries in transition. Such are, among other, aging population and almost unbearable magnitude of the fiscal burden, the inclination of the elites to preserve the collectively held enterprises as their power base, the exceptionally high share of the grey economy, the entropy approaching the virtual break-up of the financial system, with unbelievably high amount of arrears, and prolonged appreciation of the national currency which impaired exports heavily and wiped out a number of material production sectors because of the unjustifiably tough competition on the part of imports. A number of comments were made on the sad state and low level of economic science which, rather than clarifying the perilous consequences of the described policies, has uncritically endorsed them.

Key words: privatization, additional obligatory programs, the impediments in ownership change, resistances to privatization, maximanda in political processes, patterns of bureaucratic behavior, inadequacy of economic science.

JEL Classification: O 17; P 30;

Received: February 11, 2012 / Accepted: April 02, 2012

1. Introductory Remarks

Transition is generally considered to be a complex and far-reaching transformation of institutional order regulating and streamlining economic flows. It is therefore expected to lead to an economically more efficient structure, especially when it implies a deep and all-embracing
overhaul of the structure itself. Quite clearly, the alteration of the institutional machinery is by far the more important; in fact the literally decisive part of it, whereas the change of the structure of the major macroeconomic aggregates comes naturally as the expected result of institutional change. Institutional transformation could be envisaged as a movement along an involved and lengthy path in a broadly defined multidimensional space. Such movement results in the transfer of the system from one point of that space to a different, as a rule widely differing and entirely remote point. The latter is meant to be exhibiting features distinctly at variance to the initial, starting position. The point to which the system is supposed to be moved is usually referred to as the **objective of transition**, but, as it possesses many dimensions, each of the particular aspects measured through particular dimensions are named goals and even and again objectives. The context will provide protection against eventual misunderstandings.

In view of the large distance between the initial state and the objective, the point to which the system should be moved, determining this objective is not an easy matter. Moreover, determining the objective is a task fulfilling several functions. On the one hand it signals the major strategic and ideological orientation of the actors charged with making the change, a general posture on the basis of which the performing agents endeavor to legitimize themselves as activists of a particular profile. In the transition processes the relevant agents unmistakably purposed to present themselves as ardent adherents of the market economy. Such political behavior was doubly conditioned. Firstly, the privatization figured as the principal component of the transition process and clearly led to a market based economy. Secondly, market remained the key word of the entire institutional transformation and a widely accepted sign of the reformers being „correctly posed“ and being „on the right track“. „Correctness“ was understood in terms of the general thrust of the regulatory shifts towards the market economy. Thus the change was acknowledged as being in line with the spirit of time on the basis of both the state that was to have been reached by it and the **type of the path** that was supposed to have led to the desired state. Being pro-market and pro-privatizing of the available assets was a way of demonstrating some sort of progressiveness of the newly emerged elites. At the same time, such an orientation was perceived as an unavoidable source of political power and electoral support. However, on another, more practical and more operational, level of political and social interactions, the motivation not to privatize overwhelmingly prevailed. The reason is quite clear: the inherited collective ownership offered powerful levers of control in almost all spheres of social life. Collective property served as a source of power by providing a set of tools by means of which the ruling elites held command over broad strata of the population and drew popularity, prestige, political might and material and financial benefits.

Such a political set-up was clearly ambiguous. Presenting oneself as a proponent of the market and privatization gave the relevant agent of change the aura of progressiveness and an indication, if not even a proof, of a feel for what generally had been held as the agenda of the unrepeatable times of transition and modernization. On the other hand, and contrary to the general sweep of reaffirming and broadly extending the market system, the retaining of the means of production in the collective property gave the more tangible instruments of implementing various policies without paying much attention to institutional and legal niceties. In the turbulent times of wide, deep and complex changes the shortcuts acquire particularly high value and crude administrative ways come in handy even if they have to lead to a system generally freed of such direct administrative interventions. Small wonder that the ruling elite wanted to have it both ways; it therefore made manifold efforts to exploit both sources of political muscle and personal advancement. By advocating energetically the transition to a market economy they painted themselves as the vanguard of the economic modernization and social emancipation, and by sabotaging the transformation processes on a practical level and in operational steps they attempted, and largely succeeded, to preserve these welcome means of control and wealth.

The prediction following from such a constellation of interests and manners of their satisfaction is straightforward: the elites will speak loudly and continuously about these key components of economic and social advance, but will at the same time exercise significant creativity
and invest abundant effort to keep the process slow and even to block it under „favorable“ circumstances. There are a multitude of ways of slowing down and even arresting the process of transformation, but all of them come down to deliberately choosing a complicated and hazardous dynamic path and to append to it lengthy and time-consuming procedures. The authors of Serbian privatization strategy invented another imaginative device: they incorporated into privatization contracts a number of extra conditions which made the acquisition of socially owned firms unattractive. More than that, these conditions attenuated the property rights over newly acquired assets making them in some aspects akin to social ownership which is allegedly to be overcome and abandoned for good. This was the way in which new impediments were added and additional constraints created to a process which is objectively complicated, hard to steer and hazardous by itself.

A significant conclusion emerges from such an analysis: the true determination and genuine preferences of the authorities steering the privatization and other transition adjustments cannot be made out on the basis of official pronouncements. More realistic is the assessment on the basis of the policy maker’s inclinations as they transpire through actual deeds – the choice of the methods and selection of special accompanying requirements. The untoward results of such a dysfunctional approach to privatization have been precisely and quite effectively described in the professional literature, the upshot being that the privatization has over a lengthy period of some two decades been overly slow and largely unsuccessful (Drašković 2010, Kovačević 2010). The rest of the paper is devoted to the predictable features of this unexpected interaction and to the consequences and social costs of such a perverted political behavior. The key ingredients of that behavior are the marked difference between the rhetorical pronouncements and actual practices and the counter indicated extra constraints imposed on privatization in the form of special obligatory programs.

2. An Outline of the Factors Contributing to Unsatisfactory Ownership Transformation

Politicians are after popularity, widest social acclaim and after the votes. They would not have dragged on the privatization and other threads of the transition process had they not been convinced that such mode of behavior would contribute to their electoral success. The important thing to note is that, as opposed to massive support to privatization and democratization in other transition countries (TC), the penchant for privatization and other aspects of modernization was not particularly strong. This certainly has much to do with the collectivist tradition and egalitarian syndrome of the population, with its collective memories and historical experiences, as well as with deep seated social values germane to the orthodox Christianity (Sekulović 2004, pp. 47-54, 65-6). With such a social base the political elites don’t have a particularly expansive space for varying strategies and opting for ambitious transformation shifts. Political competition, which is in Serbia apparently much more intensive than in other TC, doesn’t allow the parties and political movements to drift apart too much from the prevailing axiological pattern; those who don’t heed sufficiently to the prevailing values are most likely to be losing electoral races.

There is also a highly influential element of collective memories associated to the times and arrangements of socialist self-management, the times of incomparably higher standard of life and social welfare. The difference running in favor of those extinct governance forms and systemic arrangements has indeed been and still remains to be truly striking. If there is a single consumption good dominating over all others, that is certainly housing, a true precondition for orderly life and consumption of all other goods and services; yet, the per capita construction of apartments was in those socialist times about four times bigger than it is today, with certain intervals during which it almost vanished. While it is true that past socialist development was to a surprising extent based on inflows of foreign assistance, remittances and rapidly increasing international indebtedness, no party and no individual is able to explain to the broad public that such a development, having been based on externally generated resources, was simply unsustainable (Madžar 1991, 1992). It is a universal feature of behavior of the electoral bodies and of the public at large to take the „facts“ at face value and not to dwell into deeper determinants of such
“facts”, changing in a profound way their real significance. Based on the facts as they have been statistically and in other ways recorded, population displays marked preferences for the past socialist times, demonstrating in that respect a clearly manifested nostalgia (Mihailović 2010, particularly pp. 23-6). Relevant surveys revealed that, with respect to indicators which truly reflect the quality of life, the vast majority of population thought that by far the best had been the socialist period under Tito, that the next in that respect had been the last decade of the past century (under the presidencies of Milošević) and that the period of the most intensive transition (from 2000 up to the time of the survey) had been ranked the worst. With such a political climate the parties and the politicians cannot launch particularly ambitious and radical modernization programs. They can only emphasize modernization slogans in a declaratory way, partly with the intention to present themselves to the international circles in the desirable light, but when it comes down to real changes, the attitudes of broad masses have to be duly observed.

The age structure of the population seems to have contributed greatly to the described value orientation and certainly remains an important determinant of the social climate and the political action to this very day. Serbian population is among the eldest in Europe and probably in the world as well. These people have spent most of their time under socialist regime and the high average age of the population means that the share of those who are educated in the system of self-management and formed in the socialist spirit is not only high but also maintaining their high share for a long time to come. They produce a deep imprint upon what could be called the consciousness and the political stance of the society at large. Dominated by the elderly people, the entire society tends to be conservative and heavily charged with socialist values. Democracy cannot bypass this salient characteristic of the society as a whole and competition forces the parties to vie for the favor of these numerous strata. Psychologists also speak of the selectivity of the memory: there is no doubt that these aged people have forgotten or simply wiped out of memory much of what was inconvenient, so that the socialist times sparkle in what they managed to remember with a rosy light. One should also add that there has been little change in the composition of elites playing the leading role in the political life; that has also been a marked conduit of the old socialist values which are far from being extinguished. It is also of some significance that the aged population is reluctant when it comes to accepting the change as such. This is certainly a manifestation of the indestructible natural laws, but it is at the same time an easily seen result of the rational cost-benefit calculation. The benefits of change can abundantly reap the young, the enterprising, the educated and mobile; the people in the advanced age are all but what have just been enumerated. Age has always been an important determinant of the collective interests and the political inclinations and it leaves rather deep imprints on what people feel and how they behave in Serbia today.

Declaratory pronouncements for privatization bring the political returns, mostly in international circles, but to some extent even with domestic public. The latter is the product of the mass beliefs that some tangible improvements are correlated with these seemingly progressive would-be institutional and policy shifts. On the other hand, such shifts produce the desired political effects only as long as they are not implemented; their practical realization, even if only partial, touches upon genuine existential interests of broad strata of the populace, and the consequences turn undesirable for large numbers of individuals and, of course, for the politicians competing for might and influence. Hence an already emphasized conspicuous discrepancy between formal pronouncements of the ruling political directorate and its actual behavior as evidenced by the concrete steps undertaken on the roads of modernization. There are, in all likelihood, two tracks of accumulating political support and electoral takings: the loud declarations not seriously meant to be put in practice, and the real changes which eventually would be implemented. Political life is therefore full of contradictions and inconsistencies and it would be futile to expect and/or to insist upon strictly defined or just somewhat more pronounced order: as long as they bring in the votes, the mismatches and incongruities are undoubtedly welcomed.
3. The Carcinomatoid Excrescences of Privatization: The Obligatory Investment and Social Programs

To put a number of propositions to be developed in this section into the proper perspective, a number of preliminary statements have to be clearly laid out and supported by the appropriate argumentation. The strategic determination to change thoroughly and irrevocably the ownership structure at the level of the society as a whole has not been taken on ideological grounds nor has it been induced by any other reasons but those associated with growth potential and efficiency. Privatization is a living, tangible proof that collective property cannot represent a suitable ownership base for a market economy and that the state with all its bureaucracy cannot act successfully in the role of an entrepreneur, investor, innovator or manager. Plenty of theoretical proofs has been available – for those who approached this issue with open eyes – decades if not for centuries, but the gigantic and gigantically failed socialist experiment demonstrated in vivo this epochal scientific truth.

That truth has a number of implications, but only some of them will be adduced here. The first one is that the government should adopt a hands off attitude regarding the management of the concrete economic processes, be it in the field of current production or investing and innovating. It most concretely implies and means that government, public service and the associated widely ramified bureaucracy are not called nor capable of competently deciding upon some specific issues representing components of a more comprehensive activity of controlling the processes or managing some of their parts. Particularly inept is the government when it comes down to developing larger investment programs and shaping their various segments. The government has attempted that under various kinds of socialist systems and, as is generally known, has failed spectacularly. What goes for public service and government’s bureaucracy, goes, even more obviously and indisputably, for political leadership and its various functionaries.

Just to avoid unproductive and unnecessary misunderstandings, what has been just said does not imply that government and the associated public service don’t have anything to do with the economy. The government does have business here, and indeed the business perhaps more subtle and more important than anything else that could be thought of, but it has to do with institutional development, legal order, defining and protecting property, enforcing contracts, ensuring financial discipline and doing a number of related things without which a modern market economy cannot even be imagined. One could go as far as to claim that a truly successful economic development, and even efficacious social modernization, cannot be carried out without an efficient, well run and honest, i.e. corruption resistant government. However, the functions of government are not the subject of this work and they will not be dwelt on any longer here.

Another way of articulating the same idea is by proceeding a contrario, i.e. by making a Gedankenexperiment consisting in ascertaining the implications of a hypothetical state in which government does perform the enumerated functions of managing economic processes, investing, innovating...If it were presumed that government can discharge these operative functions successfully, the natural and unavoidable question would arise: why in the world does it undertake privatization at all. And, again, the very fact that privatization is undertaken – and, indeed, by the supreme leaderships of the relevant countries – is an obvious, undisputable proof that, while formulating and implementing various policies and institutional adjustments, government is not capable of performing the operational economic function, such as management in all of its varieties, investing, concrete innovative activities...It bears repeating: if it were capable of pursuing these functions, privatization could not make any sense, it would boil down to a futile and fruitless activity.

The lam is ready for slaughter. What has just been said immediately implies that government should not put it upon itself to impose any further obligations on the owners of the newly privatized companies. At a most general level it can and should be stated that the autonomy of the decision making subjects is the key defining feature of any type of market, so that reducing the autonomy in any conceivable way, including of course the imposed programs, whether they are legally fixed or contractually stipulated, manifests itself unavoidably as a direct attack on the
market, as a way of pushing it aside and cutting down its beneficial effects on allocation of resources and growth potential of the economy. It has not been clearly seen, particularly in the realm of broader, non-professional public, that any attempt to circumscribe the autonomy of the business units is tantamount to a direct onslaught on the market mechanism.

Investment programs, to begin with, are counter indicated and counterproductive. What government has not been able to do individually and autonomously, i.e. while having the enterprises in full state ownership, it must be even less able to impose upon somebody else. This assertion is true because of an overwhelmingly important information issue. Namely, doing business in its own regime implies a formidable but still less challenging information problem as compared with the act of imposing on another (actor, subject...) the programs to be implemented. While in the case of the state run economy government officials have to have – prohibitive, as it emerged from the bitter experience of the collectively owned economies – „only“ information needed for operational management, in the case of designing programs for others government has to have technical information about those „others“ as well as information needed for formulating the programs themselves. Moreover, much of information within enterprises is internal or, as is sometimes put, private, which means that it cannot be properly coded and transferred to anyone else, including, of course, government itself. Coding and transferring information, irrespective of the quality of coding and the reliability of transfer, involves costs, in this case unnecessary and avoidable. That reveals one more weakness of this truly unusual arrangement.

The strings attached to the firms (and the new owners!) that are eventually privatized are built into the present legislation in two forms: as the obligatory, contractually fixed, investment and so called social programs. The latter were simply abandoned after some three years of attempting to apply the inapplicable. Social programs were quite an easy-to-see-through way of shifting some social expenditures from the budget, where they belong, on to the economy, where they should not be directed. That could only have led to camouflaging a part of public outlays and making the budget seem less than it really was; the final result is reduced transparency and cut down efficiency, both involving the unnecessary social losses. After a limited period of playing with social programs, it transpired that no purpose had been served by attempting to implement them and they were quietly, one could say discretely relinquished. One of the untoward effects of this ill-conceived experimentation of making the firms social care takers was the unequal position of the buyers in the process of privatization with easily seen harmful allocation and propulsion related consequences.

It is apposite to add that both investment and social programs meant an obvious attenuation of property rights and reduced the value of the companies to the potential buyers. That amounted to unneeded loss of the budgetary intake through an easily predictable reduction of prices. The only beneficiaries of this unfortunate arrangement might have been the governmental bureaus and the bureaucracy running them as it might have simplified the operations connected with carrying through various forms of social policy. However, shifting the burden properly assignable to the government onto somebody else is not contributing to social welfare and could be treated as a redistributive exercise, improving the position of some narrowly defined groups at the expense of the rest of society.

The unfavorable impact of these programs, in particular of the investment program, is not exhausted by allocation and dynamic efficiency losses and by the reduction of the prices at which companies were disposable. Introducing criteria other than the selling price introduced the insoluble problem of the trade-offs between the price itself and the magnitude of the investment or the social programs: by how much could the selling price have to be reduced for one additional dinar of the social or the investment program? A part of this smuggling of financial burdens properly assignable to the government onto the newly privatized business firms was the absurd regulation of the severance payments: irrespective of the period worked for a given employer, the dismissing firm had to pay severance for the total period of work, i.e. entire length of service. Employing a worker with large number of years discharged in other firms became thus literally prohibitive (FIC 2011, p. 37). It remains to be seen to which extent this unreasonable regulation
has discouraged employment and contributed to swelling the ranks of the unemployed, but there can be no doubt that the damage produced by this arrangement must be quite large. It, of course, affects all the firms, but newly privatized firms are affected the most because they are in the position of having to discharge the greatest burdens of overemployment inherited from the extant system of socialist self-management.

The curious implication of the described privatization model, the selling of companies combined with investment and social programs, is the need to look out for so called good buyers. In a market economy the good buyer is the one who offers the highest price. But the philosophy incorporated in these programs is that companies should be privatized to those who open up the hope that companies will under the new buyers’ direction have a long life and, moreover expand and develop for a long (whatever this might mean) period of time. This regulation is clearly inspired by the desire to preserve jobs and, equally important, secure the sustained increase in employment. But this is a wrong approach to satisfying a legitimate social need. The market does not provide mechanisms for recognizing good buyers apart from the price offered. Nor are there alternative non-market ways of discerning them and luring them into the privatization transactions. The past record of companies buying socialist enterprises in the process of privatization is not the answer to this query; for one, many of them may not have a past record at all as they have not heretofore functioned as business firms, and furthermore, even if there is some sort of a record, it is not likely to offer sufficient and reliable information. It boils down to government officials being authorized to estimate freely and pass judgment on who is and who perhaps could not be a good buyer. The implication is that some might buy the privatized firms at lower prices, because they are good buyers, despite the fact that others who are not good buyers might have offered higher prices. This widely opens the gates for all kinds of arbitrariness, abuse and corruption. For those who understand that corruption is primarily an issue of faulty and ill-structured institutional arrangements it should be apparent that the described mechanism cannot be anything else but badly damaging and multifariously harmful.

4. The Gloomy Destiny of the Privatized Enterprises

The hopes and intentions of the strategists or privatization to preserve jobs and to avoid serious falls of employment did not come through. It turned out that the vast majority of companies founded and nurtured under the various casts of the socialist economic order were unable to survive in a market environment. That should not come as a surprise. It is a fact widely evidenced in all TC that the economic tissue inherited from the socialist system is of little value and practically of no use in the newly emerging market economy. Thus Winiecki (2001, pp. 5-12 and passim) finds out that the vigorous growth of the three analyzed TC economies (Poland, Hungary and Czech Republic) was almost completely based on the newly created firms, coming into being and growing from the very beginning in a genuine market environment. Most of the firms coming from the socialist past turned out an undisputable junk and had to be liquidated. For most of them there was no hope of readjusting to the new business conditions. A few cases might have looked as if they prolonged life and fitted into new market conditions, but those were the cases of such a massive inflow of foreign capital, expertise and market connections that they can properly be treated as newly created business entities.

Much more dramatic is the presentation of the economic position and practical absence of any development outlook in Eastern Germany following the reunification of the country. It appears that none of the capacities located in E. Germany were able to find a place in the unified market and endure competition from the companies located in the western part of the country (Sinn und Sinn 1993/1991/, pp. 45-51). Unbelievable as it may look, a large number of enterprises not only did not generate any positive profits, but did not even produce any positive value added. In other words, the material costs of these enterprises surpassed the total value generated. The correct management decision in such enterprises is simply to shut them down since their „contribution“ to the GDP of the country is outright negative. This is in fact what happened in E. Germany; the companies found in that part of the country were massively closed, and those
which eventually survived did so only by massive injection of fresh capital and a complete technological overhaul; as mentioned above, this in fact amounts to creating an entirely new company. Even the names used to be changed and where they were retained, it was because such had been very old firms with long lasting business reputation and worldwide recognition acquired before communist takeover. The key word used to describe the state of this socialist economy on the eve of unification is breakdown (Zusammenbruch); a more accurate and more vivid way of characterizing the hopeless and desolate position of that broken economy could probably not have been found. An indicator of the economic despair was the vast sum which had to be expended in order to repair this ex-socialist economy, better to say to bring it to something resembling the normal structural and functional order. One of the rounded figures that stuck to memory is 1.5 trillion Deutsche Mark (1.5x10^{12}).

Most complete description of the ex-socialist economies and of their inability to fit into regular market relations and to generate value added in the normally expected way can be found in a veritably new and literally up to date study of Czech Republic, Slovakia, Bulgaria and Croatia by Schoenfelder (2011, pp. 655-7, 831-43, 831-7, 979-1101, 1365-72 and, in particular, the general summary of analytical findings 1397-1404 as well as an overview of all examined countries with addition of Russia, 453-8 and former Yugoslavia, 596-657). The study depicts in full detail the functioning of the socialist institutions and the resulting meager development payoffs. One is impressed by several important insights of this monumental study. Perhaps the most important is the finding that all ex-socialist economies included into the study had arrived into an impasse out of which absolutely no exit could be found without completely abandoning the system. The economies under consideration found themselves in a stalemate position of not only to have fundamentally to restructure economically but also to undergo an institutional overhaul beyond recognition. In all five countries (including the former Yugoslavia) the inherited economic base, not to speak about dated and dysfunctional institutions, was absolutely unsuitable for any kind of future development. A completely new beginning was needed in the literal sense of the word. With very few exceptions the old capacities had simply to be scrapped. It is worth noting that infrastructural (physical) capital was in most countries an exception in that respect, but that is exactly an area of investing, managing and exploiting which is not much dependent on the market and in the extreme case relies on the market signals in an utmost indirect way. That area is generally considered to be the proper province of the government control and, more or less the state ownership.

The capacities and the collections of variegated enterprises inherited from the socialist past could without further ado be considered as part of the decaying, irredeemable tissue which simply cannot be taken as a basis of – however it might be shaped – future development strategy. Late professor Trčković found a truly appropriate and most effective way of expressing the same idea: he said that socialist self-managed enterprises had been wrongly coded and, as such, cannot have a future in a properly institutionalized market economy. Small wonder that many enterprises acquired through the process of privatization had been simply dismantled, the workers laid off and, whatever resources had there been found, rechanneled to other, functionally distant and to the previous engagement unrelated uses. Not infrequently the legal provisions and contractual stipulations were thereby violated, provoking justified outcry in the public. One cannot endorse the open, or discrete for that matter, violation of the legal and contractual clauses, but the practice itself reveals much about the quality and economic viability of the capacities and the processes inherited from the socialist past. It thus also demonstrates how misplaced and counter indicative the imposed investment programs must have been. The fact that the entrepreneurs opt for liquidating the units which under socialism were treated as representative, destined to survive going concerns speaks really for itself. It is a living proof that enterprises founded under conditions of collective property are irreparably inefficient and unadjustable to the imperatives of a market economy. They clearly cannot survive under the pressure of the genuinely competitive market conditions, but their existence would sooner or later come under the question mark even if the old system had been able to prolong its shaky life. This latter assertion is not self-evident.
and might call for a rigorous proof, but the fact that the system broke up as a whole is perhaps sufficiently indicative of the limited life and inevitable extinction of the units which had made it up.

The insufficiently understood major reason of such a conspicuous readiness of new owners simply to liquidate acquired units could perhaps be laid out as a manifestation of a phenomenon that could be termed negative synergy. Those enterprises were, namely, badly conceived and burdened with large masses of unnecessary resources, particularly labor. But more than that, the composition of resources assembled within enterprises and constituting their working parts was as a rule economically inefficient and functionally unsatisfactory. Haphazardly and inappropriately assembled resources openly display the phenomenon termed here negative synergy. In a healthy economic environment with rationally structured and functional institutional arrangements the synergy is positive, meaning that the collection of resources engaged in an enterprise produces a larger total effect than would be the sum of effects of the individual parts of said resources had they been employed individually, independent of each other. When synergy is negative, it certainly pays to disassemble the enterprise and separate resources that had been the parts of it engage in (sometimes vastly) different employments. Still better, they could be incorporated in entirely different resource combinations with positive synergy and thus generate the effects far above what they used to deliver in the now extinct socialist enterprise. The upshot of this analysis is simple and engaging: the very fact that new entrepreneurs find it profitable and even necessary to dismantle enterprises and to reallocate the corresponding resources to other uses is by itself sufficient to prove that such a seemingly destructive operation is economically justified. Evidently, no one can know the interests and the expected effects of these resources better than the owners themselves and, failing to demonstrate externalities or other forms of market deficiencies, the same reallocation is beneficial not only individually but from a social standpoint as well.

5. Political Roots of Tendencies Compromising the Market
There might be differing estimates of the chunks of the ex-socialist economies which cannot be incorporated into newly institutionalized market economies. The general position regarding the usability of the inherited capacities in the new situation will therefore remain a source of wide conceptual discrepancies. It also remains a source of strategic misfiring in opting for dynamic trajectories of the post-socialist development. The source of the error is a possible misconception regarding the possibility of leaning the future economic development on the distorted material structure inherited from the socialist past. That is exactly what happened in Serbia. There has been a permanent overestimation of the development prospects based on the capacities handed over by the demised self-management system. Too much hope has been put into rejuvenating the economic structure which really did not justify such excessive expectations. Such exaggerated expectations and vain hopes of reviving the socialist structural legacy has probably oriented authorities more towards repairing the old structure than towards creating institutional conditions and shaping policies which would foster to the utmost the creation and fast development of the new units, formed in consonance with the market imperatives from the very beginning.

It might look as if the development strategy has from the inception of the non-socialist market order (or, rather, the inception of what that order might have been) taken the wrong turn. The development path tied to the remnants of the old “socialist industrialization” has not offered the hope of a successful development while reverting to the old socialist means of steering the economy was, of course, out of question. It should be briefly added, despite the fact that it merits a much lengthier elaboration, that development policies would probably not be successful even if this wrong strategic turn had not been taken. Due to conspicuous ethnic and cultural heterogeneity and the resulting marked political differentiation, Serbia is doomed to coalition governments, relying on very broad alliances of political parties, governments which are bound to be extremely slow moving and inefficient (Madžar 2011, pp. 447-8, 459-60). On the other hand,
with her deep structural discrepancies and macroeconomic disequilibria, the economy of Serbia is a very complex system to manage and direct. Such a combination of a very complex object, the system which is on the very verge of the ungo vernableness, and an extremely weak mechanism of control and regulation, is simply predestined to be unstable, easily pushed into the unsustain-able dynamic paths and fraught with all kinds of deviations and inefficiencies. However, leaning immoderately on the development schemes characterizing the socialist past, the policies pursued in course of the last two decades have additionally worsened the overall picture.

This is the general background on which serious conflicts between the owners of newly privatized firms and the policy formulating authorities predictably developed. The principal objective of the authorities was preservation of jobs and possibly maximizing the rate of their increase. This is where the votes in the radically transformed political system come from. But insisting upon the jobs and the resulting overemployment is one of the main faults of the socialist policies and a major cause of the spectacular failures of the socialist systems. Achieving the satisfactory levels of employment and job generation may be consistent with economic rationality in the (very) long run. In the short and medium run it is obviously contrary to maximizing profits and advancing economic efficiency in the usual sense of the word. Perhaps predictably and certainly logical if looked at with the benefit of the hindsight, the new owners started to shed the excessive work force.

One could state almost tautologically that such actions were in line with dicta of economic rationality. The owners are both informed (better than others) and highly motivated to make the best use of the available production factors. As long as one accepts the idea that, under the usual assumptions regarding the market structure and functioning, profits are the objective function leading to satisfactory (the best!) outcome at the level of he economic system as a whole, the conclusion should be that the recently popped up entrepreneurs pursue the only right thing. They maximize their own benefit, but at the same time foster – *cum benedictio* of Adam Smith – the prosperity of the economy and the welfare of the entire society. The short term is something quite different. In the short term lots of people lose jobs and fall under an existential threat. Shedding the excessive labor force is also a sure way for the incumbent governing directorates to lose political support and likely to suffer electoral defeat in the first competitive clash with the opposing parties.

In the general public and even among the professional circles there prevails the opinion that pursuing the individual entrepreneurial benefits, exemplified by profits, is a socially irresponsible and destructive activity. That is clearly wrong. There is no other social group which would be able to estimate more correctly what is beneficial from an economic point of view. Entrepreneurs are the only stratum specialized for looking out for and pursuing the options of an efficient committing of available resources. The government is certainly not an alternative in that sense: had it been a superior alternative to the entrepreneurial stratum, privatization as such would not make any sense. On the other hand, those who condemn the private entrepreneurs for „destroying the companies“ and „annihilating brutally the jobs“ should be able to identify momentous and heavy externalities which could possibly be used as a proof that the behavioral patterns attractive to those „selfish“ individuals are not beneficial for the society at large. Nothing of the sort has been done, and even if it had been done, it would have clearly ended un成功fully. Failing that, the only thing that remains to be concluded is that the private entrepreneurs are doing the right thing not only for themselves but also for the entire society.

The roots of the misunderstanding are in the widely differing objective functions of the private owners, on the one hand, and the political directorate together with the larger public („broad masses“), on the other. Private owners/entrepreneurs maximize some form of economic profits, for which it was centuries ago demonstrated that they represent the correct objective function for the system as a whole. This is not the place to prove and elaborate this elementary proposition. On the other hand, it is well known that the political directorate maximizes electoral support and popularity („liking“) among the prospective voters. It should be apparent that these are very different objective functions. No one has ever attempted to demonstrate that whatever is
maximized by the politicians could turn to be beneficial from an economic point of view and from the standpoint of the body of inhabitants in its entirety. The issue of maximand in the political process has long ago been thoroughly clarified, reducing it in any case to an unequivocal determination to reap as many votes as possible (Dawns 1957, pp. 21-50, 164-204; Mueller 2003, pp. 333-47, 360-85). Let it just be added that political behavior appears to be marked by conspicuous opportunistism: to catch the votes, they are ready to expend recklessly resources, it being understood that the long run costs are many times higher than the short run benefits needed by the politicians to enlist the sought for electoral support. It is well known that the behavior of the voters („broad masses“, vulgus in Latin) is quite similar: they are blind to the long run consequences of opportunistically taken and politically inspired decisions and no one has ever seen that they reject decisions bringing modest short run improvements because of the associated formidable long run costs.

Particular emphasis deserves the observation that politically led decision processes not only rely on completely specific, economically unjustifiable preferences, but they also reflect incomparably shorter time horizons; politicians and their entourage in whatever option of committing resources is chosen take into account and carefully weigh only the effects accruing before or on the eve of the next elections, ignoring whatever significant effects might be generated later. From an economic point of view this choice is wrong and distorted at the very level of principle: investment options and other forms of committing resources for a longer period give, as a rule, largest benefits with considerable time lags. Having, theoretically speaking, an infinite time horizon, entrepreneurs will chose such options as they are able to reap results whenever they accrue. Politically driven decision making processes pick out economically inferior alternatives, and they, indeed, do that in a systematic and predictable way. It is not unimaginable that the politicians, in alliance with the vulgus, can bring irreparable ruin to the entire economy and the society as a whole. True and sustainable economic progress calls for certain sacrifices in the immediate sense and the short run in order to achieve a rapid growth and high level of welfare in a somewhat longer time perspective. Political arrangements, particularly when they are based on broad alliances and loose coalition governments, are not conducive to that type of truly rational behavior.

There are many other sources and forms of inefficiency which tend to be indiscriminately ascribed to the market no matter what the real causal interdependencies might be at work. The blockages of economic processes could set in as consequences of ill-advised strategies and mistaken policies having nothing to do with the market as such. The difficulties in the process of development could also arise due to a host of purely exogenous factors, again unrelated to the structure of markets and predictable regularities of their functioning. Yet, much of what cannot be duly attributed to the market is treated as a sign of its manifold deficiencies. A reorientation towards the market brings many inconveniences associated with uncertainty and the hardship and costs of adjustments. In the course of adjusting many mistakes are naturally made, some of which far-reaching and irreparable. Looking for excuses is probably a part of human nature and for the same reason it is a rich source of faulty explanations and arbitrary, unfounded interpretations of the ongoing developments.

6. Other Sources of Deviations Compromising the Markets

This section will be directed to just touching upon a number of difficulties and distortions which are taken for granted as manifestations of market failures whereas their sources lie elsewhere. Firstly, new legislation is not easy to conceive and construct, much more difficult it appears to apply and consistently to adhere to. New laws are quickly enacted and perhaps even quicker to modify and amend. With many contradictions resulting therefrom, economic actors are deprived from a badly needed coordination mechanism without which market processes cannot unfold orderly. It appears that both too quick and too slow enactment of legal acts creates damaging inconsistencies. If too quick, the laws cannot be well written and clearly laid out. If too slow, some acts become dated and obsolescent before the needed new ones are even launched into legislative processes. It is also true that the slow creation of laws makes it impossible to fill
appropriately the prevailing, in TC typical institutional vacua, which again makes the system incomplete and contradictory. Some observers believe that the laws and the accompanying by-laws are made contradictory on purpose, so that businessmen have to violate at least some of them; by observing one, one is violating the other(s). Information on such violations is carefully stored and, as the „need“ arises, selectively used for prosecutions; this is a way of effectively controlling the business community and keeping it in the subservience.

Secondly, population is aging, the ratio between the inactive and the active population is steadily deteriorating and the burden of the dependent part of the society is becoming heavier year in, year out. The resulting fiscal burden is also becoming consistently heavier, reducing the profitability of the economy across the board and discouraging all kinds of development initiatives. Economy for long displays clear signs of development malaise, which has nothing to do with the market. Yet, the fact that the particularly conspicuous signs of this malaise coincide with the general orientation to the market economy is taken as evidence of the market’s imperfections. The public does not understand that Simul cum hoc, ergo propter hoc doesn’t have always to apply and certainly is not applicable here. Thirdly, there has been a drastic overvaluation of the domestic currency caused by the abundant temporary inflows of external resources, and under the resulting Dutch disease could not without serious damages (scorched land!) survived even much stronger and with sanctions and the NATO bombing not affected economies. Fourthly, demagogic slogans and populist onslaughts on the entrepreneurs have permanently been a source of enticing masses and reaping easy and cheap political support; the prevailing spirit of the time (ingenium saeculi) is that, whoever is successful in business, must have earned the money by stealing and plundering; by exploiting this weakness of the national mentality the political elite secures possibly some modest benefit for itself at the price of incomparably higher losses and damages for the rest of the public, i.e. for the society as a whole. Such behavior is vividly exemplified by the frequent use of the term tycoon with distinctly negative connotations and of the derived serbizid word tajkunizacija referring to the multiplication and spreading of the type of people who quickly accumulate wealth resorting to legally problematic and morally reprehensible ways. There is a likable Serbian proverb aptly characterizing political activists who inflame popular feelings against successful businessmen in striving to increase their popularity and electoral support: Slaughtering an ox for kilogram of meat.

Fifthly, the grey economy is a widely recognized deterrent of legal entrepreneurship and at the same time the phenomenon discrediting the market. It is a source of, as it is here called disloyal, i.e. unfair competition. Indeed, most of the time it is not easy to compete with those who have freed themselves from the uncomfortable task of paying taxes, the needed superiority in terms of efficiency being approximately equal to the sum of various kinds of taxes per unit of production. Moreover, the illegality of those active in the grey economy is lightly ascribed to those who pay taxes and do business legally, as if the contempt of law had been common to all persons engaged in organizing business or carrying out independently entrepreneurial activity. The grey economy also functions as a steady source of temptation for those who do business legally, thus eroding legal business and making it look less attractive than otherwise. Whatever stance one adopts towards the grey economy, more blame is put on both legal and illegal business than they truly deserve, which reflects unfavorable upon the market and the degree of its acceptance by the society. Namely, like corruption and other forms of abuse, grey economy is primarily determined by deficiencies of the existing institutional framework and the only institution responsible for developing institutions and making the corresponding adjustments is clearly the government. Recognizing that the capacity of developing institutions is undoubtedly limited, one needs to add that all objectively given and unused opportunities for advancing institutions quite naturally have to be characterized as government’s responsibility. Even the grey economy should not primarily be treated as the „sin“ of the agents indulging in it, but as the failed duty of the government. Namely, it is up to the government to make the grey economy if not impossible then at least strongly unattractive. Once it becomes clear that working in the grey economy could be continued without greater risk and that both the probability of being caught and the punishment in the case
of being found *in flagranti* are low, the competition itself will force the participants of the legal economy to plunge into the murky waters of the underground business.

The *sixth* item refers to corruption. In its coming into being and further development it is similar to the grey economy. It is very much institutionally determined – some arrangements simply call for corruption and it predictably grows with the increasing direct interference of government into the economy – and it tends to spread with accumulating the evidence that government has adopted and is likely to prolong its lax attitude towards this form of social pathology. Even though other walks of social life seem to be more affected by corruption, and by more drastic of its forms, a long and dark shadow is cast upon the economy and the market, particularly in view of the fact that the market participants are typically among those who *order* various types of corruptive services. The *bads* of corruption – even if there is just the perception of it, especially in the international circles – thus become *bads* of the market. Unfavorable impressions of the market become therefore an obstacle on the way of its social acceptance and of streamlining economic activities and patterns of social behavior in line with its logic. The perception of corruption, probably reflecting the „real thing“, acts as a deterrent to foreign investors, and reduced (in comparison to what it might have been) flow of investment from abroad impedes development of the market mechanisms and thus hinders the trends of modernization.

The already mentioned heavy fiscal burden, partly conditioned by the opportunistic behavior of the bygone socialist authorities who passed to us the legacy of liberally awarded social care rights to be on the average serviced in the distant future, is still another factor constraining the development and social acceptance of the market. Let there be just mentioned the lack of financial discipline, embodied in huge and ever growing amount of arrears, a discrediting of contracts which enunciates and closely approximates the very break-up of the market. This could be the *seventh* determinant of the slow and uneasy acceptance of the market by the society at large. All these factors, as well as the forces elaborated prior to them – deep imprints of traditional values and attitudes, aging population, the positive memories of the past system of socialist self-management… are in fact the deeply underlying social forces influencing strongly the basically failed strategies of privatization and weaving themselves together with these strategies into a not quite encouraging social tissue constituting poor and unpromising base for badly needed reconstruction not only of the economy but of the society as a whole.

7. The Inglorious Role of Social Sciences

Much of what has been identified as an obstacle on the way of promoting the market as the principal mechanism of allocation of resources and of regulating economic processes has been connected to some tangible interests and explainable by recognizable perverted motivation. One could expect that social sciences would represent a bright spot in this gloomy landscape. They might not be motivated by marked particularistic interests, as sciences should be completely devoted to investigating *truth*, while the morale of the profession should protect them from diverting to the intellectually irrelevant items. This expectation, however, has not come through. It looks as if the heritage of the old socialist times, with heavy emphasis on collective forms of property and administrative, bureaucratic procedures of regulating the economy, has had the upper hand and that deep traces of socialist ideology and thought determine much of what is still recognized as the scientific approach to social realities.

If one provisionally consults the Schotter’s (2001, pp. 10-5) taxonomy of broad collections of development driving institutional factors – though just for this context and a very limited set of purposes – then the failure of Economics and other social sciences to contribute their impact to modernization, appears to be an additional handicap on the arduous and uncertain way of modernizing the society. Namely, Schotter classifies institutions steering social development into three large segments: the state, property rights and the „economic consulting firms“. The last of these three refers to the contribution of sciences and their role in the institutional development and thus ultimately in the evolution of the society as a whole. Schotter’s rationalization cannot be accepted here as a universally applicable approach, either at face value or as a broader,
admittedly metaphoric conceptualization. The reason is in the present claim that, firstly, social development is not governed by ideas, thoughts and knowledge, but rather by the interplay of interests and power associated to them in the capacity of their backing; and, secondly, the three broad institutional segments suggested by Schotter are far from being symmetric regarding power with which they are endowed. The most powerful is by far the state with its institutionalized monopoly over the means and ways of coercion. The least powerful is, again by far, “economic consulting firms”, particularly in a social environment in which expertise appears to be lastingly in low esteem. The long story will be cut short by simply stating that social sciences have traditionally not had noticeable influence on the social movements in these lands and, at the same time, that their quality appears to be almost unforgivably low. Rather then attempting to prove this proposition and thus stepping far out of the purpose of this paper, it will simply be referred to a very recent paper (Prokopijević 2012) in which it is comprehensively and with fair degree of persuasiveness laid out and elaborated.

Yet, a miniature case study will briefly be discussed here. The purpose of this discussion is to demonstrate the inadequacy of the academic coverage and the professional diagnosing of major institutional shifts as displayed on the domestic scene of Serbia. A very representative piece of work, endorsing practically all here criticized solutions incorporated in the actual, still valid legislation regulating the privatization process, will be tentatively examined by bringing out the major points. The work to be discussed is the preface to a collection of articles devoted to the transition issues (Cerović and Uvalić 2011). Admittedly, this is a very small, in fact a one element sample, but despite that it is quite representative. It mirrors much of what has been written in the Serbian professional literature on the transition regularities and reflects the accompanying controversies, as well as the ideas related to the ways and means of accelerating the transition and making it more efficient. Moreover, on of the authors (Cerović) is the president of the Serbian Scientific Society of Economists, which should give an added weight to the expressed views and the accompanying argumentation.

Most regrettably, the authors seem to have gone as far as to be impressed and in a way fascinated with the legal provisions incorporated into the existing legislation. They support the idea of the government imposing to the newly made owners, those who purchased the firms in the process of privatization, special programs, be it social or investment obligatory schemes. The curious thing is that the authorities themselves have relinquished social programs without the authors having made notice of this important detail. It turns out that the authors remain more radical than the authorities themselves in reducing entrepreneurial autonomy and thus constraining the market. None of the questions posed in section 3 of this work related to the investment programs has been raised. In particular, how government can know how much should be invested in any specific enterprise if it has, by the very process of privatization, openly admitted that running enterprises is not the field of its comparative advantage? Deciding on investment is a much more complex and more risky segment of decision making than the current management of the firms. If it is accepted that government is not the right agency for current management of the companies, how in the world can it be considered able to take successfully much riskier and by far more complicated investment decisions? Could anybody, while sober and composed, believe that the state officials could prove superior in taking investment decisions in relation to the professional businessmen and entrepreneurs? Whoever is able to accept this oddity, should inescapably conclude that privatization is not only unnecessary but, indeed, a regrettably wrong turn in the institutional development of the country.

The important insights acquired in the new developments of the decision making patterns in various economic and social environments seem to be completely ignored. The fundamental differences in preferences, decision making criteria and available information, including knowledge and expertise in the relevant fields of management and control, appear to be completely overseen. The elementary fact that political consideration and the associated decision making criteria cannot be satisfactory in steering economic processes is simply bypassed. Public choice theory demonstrating amply that pursuing political goals in economic matters cannot be
anything but perilous and the basic dissociation of decision making criteria in economic and the political sphere (cf. Mueller 2003, pp. 333-47) rests completely out of sight. Very specific and economically counterproductive behavioral patterns of bureaucracy (Mueller 2003, pp. 360-85) are not in the slightest taken into account. The same goes for the fundamental differences in the time horizons between the two major groups of decision makers: economic costs of centering on just the short run benefits and of the tendency to push costs as far into the future as possible – both of these are well known conspicuous features of the political and bureaucratic decision-making – appear to be utterly ignored.

It doesn’t seem that the authors are conscious of the fact that opting for the idea of search for good buyers – they insist that it is a good idea for the state „to obligate the buyer to invest in the development of the acquired firm“(Cerović and Uvalić 2011, p. 5) – unavoidably implies the price discrimination among the buyers. In other words implied is the possibility and even necessity that the firms, as a matter of daily routine, be sold to the buyers offering lower prices then some of their competitors. As indicated in section 3, this opens widely the gates for corruption and a host of other abuses, which is one of the worst features of any institutional arrangement that could be thought of. More than that, even if the bureaucracy was composed of sole saints and if it knew and wanted to differentiate selling prices exactly in line with varying „quality of the buyers", it could not prove to the public that such a covariation was precise and just. The public would perceive corruption even in the acts and decisions where there isn’t any. Collecting the statements in this paragraph, it should be apparent that they amount to an impossibility theorem of sorts. It is interesting and highly indicative that the authors themselves allude to an empirical feature of Serbian privatization tantamount to the just stated impossibility. When speaking about the endeavors of the state to obligate the buyer in the privatization process to invest into the development of the purchased firm, they insert a clause which is really telling: in Serbia, though, unsuccessfully (Cerović and Uvalić 2011, p. 5). It follows immediately and unequivocally that the authors endorse and recommend a practice for which they themselves – in all honesty – find to be infeasible!

8. Conclusion

The conclusion of this paper can be quite brief. A queer trait of the privatization process in Serbia was its confronting resistances coming from all major strata of the society. Politicians hold on to the state enterprises as their power base. The broad public sticks persistently to traditional values and behavioral patterns militating strongly against (overly stressed) private property and the market intermediation which is found to generate too many „unbearable“inequalities. The majority of the voters also insist on preserving the jobs and, if possible, creating am many of them as possible in the short run, disregarding the enormous costs and the disastrous consequences of such a policy in a somewhat longer perspective. The privatization strategies reflect this resistance to fully embrace the market and the private property as its unavoidable institutional base. The entire venture of a thorough ownership transformation is fraught with a strange and harmful ambiguity. On the one hand, the spirit of times and a worldwide thrust toward privatization make it necessary to proceed to transform ownership structure to be in step with the part of the world to which we are determined to belong. On the other hand, atavistic feelings of collectivism and indiscriminate solidarity, as well as the interests of the political operators, make the opposite side of the medal and extend a stubborn resistance to the entire host of modernization endeavors, including privatization.

This paper centers at two sets of issues. The first one relates to those features of privatization which clearly reflect the underlying opposition towards this radical transformation of property relations. This opposition is conspicuously revealed by various programs (investment and social) imposed upon the buyers in the process of privatization which obviously slow it down and make it unnecessarily complicated. The second set of issues comprises a number of economic traits and social characteristics which militate against privatization and, again, slacken its pace and raise its costs. Privatization will eventually be completed but it will take more time and con-
sume more resources than initially anticipated. It will also turn out less successful than in the countries with which comparisons are made on a daily basis. There are few, if any, strands of transition and, more generally, of modernization which do not come out in Serbia more hazardous and more time-consuming than in the comparable countries.

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