

**PRIORITY OF THE ANTI-CRISIS ECONOMIC POLICY
BASED ON INNOVATIVE-INSTITUTIONAL CHANGES**

***PRIORITET ANTI-KRIZNE EKONOMSKE POLITIKE
ZASNOVANE NA INOVACIONO-INSTITUCIONALNIM PROMJENAMA***

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Abstract: *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-institutes on economic policy and valorization 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.*

Key words: *Global Crisis, Anti-crisis Economic Policy, Innovations, Institutes, Economic Growth and Development, Transition Economies.*

Apstrakt: *Kombinacija globalnih i lokalnih faktora daje savremenoj finansijskoj i ekonomskoj krizi određenu specifičnost i unikalnost. Cilj ovog rada je da ukaže na potrebu hitne izrade konzistentne antikrizne ekonomske politike, koja mora uvažavati lokalne i globalne krizne i rizične faktore. U radu se razmatra uticaj realne institucionalizacije na kvalitet i efikasnost ekonomske politike. Ukazuje se na primaran značaj institucionalizacije u odnosu na ekonomsku politiku, kao i na destruktivno dejstvo pseudo-instituta na ekonomsku politiku i valorizaciju privrednih resursa. Polazi se od hipoteze da je za izradu efikasne anti-krizne ekonomske politike potrebna pravilna i pravovremena identifikacija problema i kriznih procesa, formulisanje njihovog monitoringa, definisanje potrebnih mjera i izrada razvojnog pristupa, koji se mora zasnivati na inovaciono-institucionalnom modeliranju.*

Ključne riječi: *globalna kriza, anti-krizna ekonomska politika, inovacije, instituti, privredni rast i razvoj, tranzicijska ekonomija.*

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1. Introduction

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 institutes. 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 - V. Drašković 2008a, s. 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.

2. 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 institutes from foreign economic politics 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 econo-

mic klototrizam 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 “**d**”, which is made of *deformation, deficit, deregulation, disinvestment, destructivity, differentiations, disproportion, domination, discrimination, dictates, determination, duality and demotivation* (adapted according to: V. Drašković 2007a, s. 93). The above mentioned model “**d**” is characterised by functioning of “*rapacious country*”, which substituted the “*country of development*”, which eroded the socialist institutes 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).

3. 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: a) consistent developmental strategy, b) implementation of defensive measures which will, as a priority, take into consideration the so far mistakes, ecologic limitations and social requirements, c) maximal support to civilizational innovations in the area of technology, organization, regulatory mechanisms, political, economic and social relations, saving and rational allocation of resources, d) modernisation of state regulations, as the main institutional innovation, e) development of human resources and f) 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-lobbyistic structures and can activate missing control mechanisms, rule of law, economic freedoms and efficient instruments of economic policy.

4. 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 institutes.

The influence of global crisis illustrated very fast the illusory 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"¹, 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 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

¹ 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.

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 institutes, anisotropy of information and unavoidable privileges). No one is responsible for the fact that informal institutes 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 institutes, 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 institutes and innovations (Budak, 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 institutes 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 loosing 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: a) strengthening investments in the infrastructure and support to development of private sector, b) decrease of ongoing and unproductive budgetary spending, c) support to citizens and economy by securing additional solvency and d) socio-economic measures.

5. Conclusion

„*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 weaknesses 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 institutes.

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).

Zaključak

„Ekonomsko čudo“ crnogorske pivrede i bližeg balkanskog regiona razobličio je prvi ozbiljniji globalni krizni talas, pojačan dugogodišnjim negativnim lokalnim privrednim strujama. Krizu po svojim manifestacijama daleko prevazilazi obična ciklična kolebanja i jasno oertava privredne slabosti. Šanse za izlaz iz krize moraju se tražiti, pored većeg rada, reda i discipline, u institucionalnim inovacijama i oblasti ekonomije znanja.

Mjere operativne antikrizne podrške privredama u regionu moraju se kombinovati s izradom konzistentne, sistemske razvojne strategije, koja će biti osnova za usvajanje inovacionog razvojnog modela, zasnovanog na izgradnji stabilne institucionalne sredine i ubrzanim usvajanjem ekonomije znanja. To su uslovi svih drugih uslova. Podrazumijeva se stimulanje unutrašnje tražnje, obezbjeđenje alokacije kapitala u prioritetne oblasti, maksimalno moguća supstituci-

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 prejudice 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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„Vijesti“ od 29.07.2009 i 31.07.2009

ja uvoza i realno stimulisanje razvoja malog i srednjeg preduzetništva, uz postepeno eliminisanje nagomilanih privrednih problema disproporcija. To pretpostavlja, pored ostalog, stabilizaciju i jačanje bankarskog sektora, stroga i efikasna kontrola aktivnih i pasivnih operacija svih finansijskih instituta.

Afirmacija antikriznih mjera je imperativ vremena i privrednog rasta, koja se u posmatranom regionu mora orijentisati proizvodnji kvalitetnih usluga (bankarskih, logističkih, turističkih, transportnih, komunikacionih, montažnih i dr.), na bazi apsolutnih i komparativnih prednosti. Sve antikrizne mjere se moraju sagledavati kroz prizmu nekoliko osnovnih kriterijuma: povećanja proizvodnje i zaposlenosti, likvidnosti, privredne efikasnosti, prestrukturiranja i održivosti privrednog rasta i razvoja. Posebna pažnja se mora posvetiti povećanju poljoprivredne proizvodnje, gdje god je to objektivno moguće.

Globalna kriza predstavlja unikalnu mogućnost da se formiraju kvalitetno drugačiji i bolji razvojni pristupi ekonomskoj politici, čija dosledna realizacija može obezbijediti stabilan privredni rast. U pitanju je složen i težak proces fundamentalnih društvenih i privrednih promjena (inovacija), a ne kozmetičkih dotjerivanja kao do sada, koja su uvijek imala palijativan karakter i ograničene domete. Potrebno je prevazići retoričku i interesnu priču o uspješnosti neoliberalne ekonomske doktrine. Prevaziđeni i pogubni tržišni fundamentalizam mora bitno i dugoročno biti zamijenjen „institucionalnim fundamentalizmom“ (Rodrik et al. 2004) i udarnim dozama nekih od keynesijanskih lijekova. Ekonomska politika se mora usmjeriti na proizvodnju roba i usluga (umjesto finansijskog inženjeringa i merkantilizacije svega i svačega), aktiviranje komparativnih prednosti i održivi razvoj (umjesto bespoštedne rasprodaje prirodnih bogatstava i monopola).

Mora se revitalizovati i funkcionalno osposobiti institut državnog regulisanja, kojem pripada ekonomska politika. Rijetki pojedinci su se naglo i enormno obogatili, jer je zatajio institut državne kontrole i regulacije, date su im privilegije, došlo je do preraspodjele bogatstva, u kojoj su izgubili država i većina naroda. Bez ambicije da se prejudicira obratni proces, nova antikrizna ekonomska politika mora preduzeti određene mjere u pravcu investicionog aktiviranja pomenutog bogatstva i dodatnog oporezovanja krupne imovine.
