

SOCIALIST LEGACIES IN THE CONTEMPORARY DEVELOPMENT OF THE SERBIAN ECONOMY

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Abstract

On account of many impressive but unsustainable results, the public developed the belief that the old collectivist system was superior and that reforming economies towards decentralised structures and market coordination might have been a big strategic mistake. Public opinion surveys reveal a high evaluation of the old socialist order and intensive yearning for bygone ways and means of going about material whereabouts and necessities of daily life. This paper comes to grips with the convictions relating to the alleged superiority of the socialist institutional order. The main point in proving that the old systems had in fact been inferior consists in underlining their *unsustainability*. The high rates of growth achieved in some past periods are not true indicators of the old systems' efficiency because they could not be maintained permanently. The very fact of the massive breakdowns of socialist arrangements is the best proof of their inferiority. It is shown that formerly prevailing extensive growth unfolds through mechanisms which inevitably lead to irreparable deceleration and would ultimately end with secular stagnation. As stagnation is not acceptable as a systemic option, the arrangements ruling in socialist societies had to be replaced in lump. The important fact is that a dramatic slackening of development trends began while socialist systems were in full operation and that low rates of growth cannot therefore be ascribed to institutions which were introduced visibly later. Historic institutional turnaround pulling the economies out of centralist shackles *came as a consequence* of the already languished and developmentally blocked and conspicuously paralysed socialist systems; institutional innovations are not the cause but the result of the previously disabled and hopelessly stopped socialist development. The inefficiency of socialist systems is analysed on an additional plane. Having been based on coercion and terror, such systems have, generally speaking, imposed enormous costs in terms of human sufferings, annulment of human freedoms, impairing dignity and trampling on citizens' rights which constitute an indispensable pillar of civilisation. The prototype of the collectivist system is estimated to have, in one way or the other, annihilated between 12 and 15 million people, most of them representing nonsensically destroyed innocent lives. A system imposed and operating with such high and *such* costs cannot be sustainable and has to meet its historical debacle. With unbelievable waste in all principal walks of life it cannot survive. And, if it could, that would be a pity: a veritable evil course in the unfolding of civilisation.

Key words: institutions, rhythm of institutional change, revolution vs. step-by-step change, reforms, centralism, decentralisation, socialism, collectivism, self-management, coercion, political power as a source of inequality, breakdown of the systems, economic development, extensive development, economic efficiency, rate of technical progress

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Introduction

The ancient Greeks are reputed for allegedly having said that even gods cannot change the things that have already occurred — the happenings which have become a part of the irrevocable past. It seems that this idea has general significance: the past is given and unchangeable and much of what it implies has to be accepted and life has to adjust to it. As is the case with other ex-socialist countries, Serbia has undergone an extended, half-century long, socialist past, perhaps with more commitment and more numerous and deeper consequences. The traces of that past are important and consequential if not readily visible and easily recognisable. The socialist past has left lasting imprints on the structure of the economy, on its institutional framework, behavioural patterns and the comprehensive, vastly heterogeneous and not-easy-to-erase set of collective values and communal preferences which, for the lack of a better term, can be named “ideology”. The purpose of this paper is to indicate some of these features of the socialist past with which we are confronted and have to deal with and to examine their numerous and far-reaching implications.

The Shadowy Side of the Socialist Growth Miracle

The impressive development performance of socialist economies is thoroughly researched and well known. But there were and continued to reemerge increasing doubts and shadows. Nutter (1983 [1968]) found that, however impressive, Soviet growth had not been visibly faster than the growth of tsarist Russia in the couple of decades immediately preceding the 1917 revolution. He also compared Soviet growth with the USA’s growth in the period which, regarding the stage of development, had been comparable to the observed Soviet growth. He did not find a significant difference. He endeavoured to isolate more than simple institutional determinants of the tempo of development and found out that the peculiar and unprecedented institutional innovations of the Soviet economy had in reality, as far as the pace of development is concerned, not made any difference.

Other observations amounted to casting serious shadows on the Soviet growth performance. It was quickly observed that the Soviet system contained an inherent tendency to overestimate development results. The planning bodies are known to have been prone to impose overambitious and unrealisable objectives and that the managers of socialist enterprises faced serious risks in cases of underperformance. The false reporting was a predictable and inevitable result. Geler and Nekrics (YEAR, 433) state that lying had become a lifestyle and that statistical information had become extremely unreliable. Setting aside the ethical implications of this scandalous reporting, the tendency and the imperative of falsifying production reports

was found to change over time and some correlation between this tendency and the officially reported rate of growth was observed.

More importantly, the technical (input-output) coefficients were notoriously high in the Soviet economy. This means that the coefficients of value added were sadly low and that huge physical quantities contained a low proportion of the value added, which is the only component having some meaningful welfare content. Simply put, steel ate up coal, coal absorbed too much electricity, the electricity production devoured too much coal, etc. so that relatively little remained which could satisfy final use — mainly personal consumption as a counterpart of standard of living and investment as a means of expanding production capacity. Huge production figures, apart from war production, did not provide a basis for a decent living for the populace. The less so as a huge proportion of the modest national income, as one of the conventional measures of value added, was extracted for the purpose of implementing a steadily increasing volume of investment.

A study made half a century ago (Madžar 1968, 347-362) found that socialist economies have incomparably higher inventory-output ratios with notoriously inferior performance in serving the consumers (long queues, supply interruptions, protracted scarcities or even unavailability of many commodities including those essential ones...). The message of this finding is clear: collectivistically institutionalised economies are considerably less efficient and, behind large quantities, there is a low and inadequate level of satisfying consumer needs.

The only thing the collectivist system has over centralised systems, including of course the Soviet system as the protagonist and the forerunner, is the above-emphasised mobilisation of resources. In authoritarian systems with an untouchable Party monopoly of political power and without having to face the critical confrontation of the general public — i.e. without political competition of other parties — there is an extremely broad manoeuvring space in the division of national income into various types of final use. The government owns the bulk of productive capacity, but even independently of that, it relies on brute force and unrestrained coercion, and can therefore take for the purpose of “social accumulation” practically as much as it finds fit. Labour was also easy to mobilise: an abundant quantity of rural labour in agriculture made it easy to commandeer the needed numbers and the direct compulsion made it possible to allocate labour according to whatever plans happened to be adopted. Regimentation of labour was a part of the ruling institutional framework so that reallocation of labour was possible and actually practiced even when it came down to individual enterprises and to satisfy their daily needs for labour. In short, the government had all possibilities to increase both capital and labour in the modern sector of the economy, the one fostered and for some time rapidly expanded in the process of industrialisation.

Thus, development could have been rapid, here and there spectacularly accelerated through massive commandeering of both capital and labour. This was the pattern and the essence of so-called *extensive growth*. The strategy of extensive growth can produce miracles but, alas, just for a limited time period. The fatal trouble with extensive growth consists in the fact that *it is not sustainable*. It is an elementary proposition of the theory of economic growth that a sustainable and stable (lastingly maintained) rate of growth is achievable only on the basis of permanent technological progress. Technological progress is a process of steady increase of the production relevant knowledge which makes it possible to increase value added without a simultaneous increase in the quantities of production factors. It is measured by the rate at which the economy would grow with given and fixed quantities of the factors of production.

For technological progress to proceed regularly and as rapidly as in the advanced economies *the system has to learn permanently*. And for that to happen, it must have the following inseparable feature: the autonomy of economic agents, based on economic freedom. Only with economic freedom and institutionally-secured autonomy will the system include broad masses of agents into the decision making and thus augment and continue to keep its *decision making capacity* at a high level. Economic freedom, at the same time, conditions the necessary motivation and makes it possible for the system to develop a rich cloud of interactions and thus generate large amounts of necessary and unfailingly precious information. Economic freedom and technical progress go hand in hand. Through centralised, administratively run and politically steered processes of management and control, with next to an exclusive reliance on compulsion and prohibitions, the system was deprived of any possibilities of generating satisfactory technical progress and was thus doomed to long-term stagnation. The alternative of exploiting technical innovations generated in market economies was available, but the administratively structured system was extremely hostile to major changes and thus to initiatives and adjustments implied by advancements of technology.

The key failing of extensive economic growth boils down to a fundamental structurally determined property of its pace of expansion: the system as a whole tends (and ultimately hits in the sense of equalising) to the rate of growth of the slowest growing factor of production. If the slowest growing factor happens to be labour vis a vis population, then economic stagnation, as defined via *per capita* income is the long run destiny of the extensively growing system. If some other factor appears to grow the slowest, then the long run steady rate of growth, again defined through *per capita* income will turn out to be negative. The collectivist, politically domineered and economic freedom-annihilating system of Soviet and other socialist economies could not generate the needed technical progress conceived in

the broadest way and was therefore destined to be trapped into a state of long run indefinite stagnation. Empirically speaking, that is in fact what happened to socialist economies and that is the prime cause of their inevitable collapse. Such a collapse has as a rule been followed by the collapse of the real economy as evidenced by dramatic breaks of the trends of major macroeconomic aggregates; only those economies that were able to avoid such a debacle were those that managed a timely to shift to a fundamentally different market or, as some would say, the capitalist system.

The collectivist system under observation proved extremely irrational. The imposing of a priori reasons for its inevitable irrationality have been dealt with here to some detail. Another reason supporting this conclusion is its historical demise; in most countries it simply suffered dramatic collapse, while in some other countries (China) it was smoothly replaced with spectacular results due also to well taken macroeconomic policies. There is a third reason supporting the same conclusion. There have been invisible but huge costs accompanying very conspicuous but not repeatable results of the greatly hailed stage of rapid extensive growth. There are estimates according to which the not quite visible losses in agriculture accompanying the erection of huge and impressive projects, such as a gigantic power station and steelworks, overweigh the value of these projects — a glaring example of the pattern of politically initiated and administratively steered projects: the results are overly visible and the costs are invisible, hidden in some deep background (Geler and Nekrics 2000 [1986], 213).

Beside the structural reasons contributing to this epochal failure there is one overwhelming political reason. Namely, among the fundamental economic propositions, one immediately runs up against the requirement that in a rationally structured economic (and social for that matter) system *the consequences of decisions have to fall on the points of authority, i.e. on those agents and bodies who have taken the said decisions*. That elementary principle was drastically broken on a grand scale — in fact, at the highest imaginable level, the level of the society as a whole. The Communist Party was the holder of all power and ultimately decided on everything associated with key social changes, i.e. on everything that mattered. It, however, carried no responsibility whatsoever (Geler and Nekrics 2000 [1986], 675-678). Responsibility had been regularly shifted onto the operative bodies which most of the time were simply unable to implement decisions of party bosses that were arbitrarily taken and carried imprints of ignorance. Economic policy was replete with gross mistakes. For example, the fiscal obligations imposed upon various kolkhozes were frequently unbearable because those deciding about them had no idea of the fiscal capacity of various sectors of the economy and of their operation organisations. The state therefore frequently took almost everything, not even

leaving quantities necessary for sowing in the next year (seed). The result was that better-to-do kolkhozes had to assist those unable to fulfill obligations with the end result that a motivation structure had been practically eroded: what people were able ultimately to reap on the basis of their effort had no relation to the effort and accompanying skill itself (2000, 481).

The unsatisfactory end results are predictable and easily explainable. Russia is in fact an underdeveloped country with the structure of a backward economy. That structure is dominated by the production of raw materials, particularly oil and gas. Every significant change of the world market prices of these products strongly affects the Russian economy in one way or the other. The country is disturbingly similar to Saudi Arabia, with the difference that the per capita availability of exportable natural resources is considerably lower. With the exception of a limited number of traditional products (caviar, vodka...), one is unable to find any new, sophisticated product launched from there to the world market. Compared to China, Russia is technologically and economically abysmally inferior. Armaments production does represent an exception, but it is clear that it does not contribute noticeably to living standards. Once agriculturally rich and widely known with huge exports of wheat and related products, the country is unable to feed its population and relies heavily on food imports.

The Scars of Socialist Institutional Heritage

Vladan Desnica, a prominent Serbian writer from Croatia, has, among a considerable number of highly praised works, a very strange story. The story runs as follows. The person — N.N. — left his home in the evening of a bright, sunny day and never came back. The writer adds that *nothing else* was heard of him. *Nothing*. Leaning on the mere known and verified facts, nothing else can be reported about the destiny of N.N. But how could a story consist of a single sentence, the writer asks himself — and the reader. Since such a story would be truly queer, the writer concludes that the story *must be continued somehow*. And only then the story begins in truth and a series of almost unthinkable events starts unfolding. It comprises quite a few “sentences”, it is a deep and far developing narrative.

This author is in a position which is very similar to Desnica's. The system which happened as a result of the socialist revolution, with World War II as its deep background, was an authoritarian, collectivist social order based on coercion, violence and threats — physical and others — which gained considerable credibility because they were with sufficient frequency brought about in practice. Two fundamental pillars of contemporary civilisation, and perhaps of civilisation in general — private ownership in the economy and a pluralistic, multi-party political system in the general public domain —, were destroyed. No mention could have been made

about the rule of law. Legal certainty was eliminated, with individual rights and freedoms swept away.

Belonging to the family of collectivist authoritarian arrangements, the system in Yugoslavia and inherited in Serbia developed in a number of varieties and possessed the basic features of such arrangements, which means that it fell rather deep into *pre-civilisational stages of broadly conceived social development*. Decades and centuries of evolutionary — uncertain and haphazard yet successful and positive — development were simply done away with. This monumental destructive performance had to mean that the system was bound to be *ultimately* unprecedently harmful, wasteful in handling resources, unfree and violent with high costs not only in terms of material means but also in terms of human sufferings and human lives themselves. It also meant that the system was unsustainable and that its spectacular upswings could not be long lived and had to terminate, with collapse and stagnation, the amazingly high cost of periodic accelerations of economic and overall development. Since life does not stop, the debacle of the system meant its replacement by a different one, with its structure diametrically opposed to the construction of the run out system. *As it turns out, the story of unsustainability gives a complete, though quite general and exceedingly broad, answer for the post-socialist collapse*. This could be the end of the diagnosis and the analysis of the socialist system which unexpectedly and for some indeed unhappily happened to people in these lands, much as it looked that a strange sudden end was about to happen in the queer narrative of V. Desnica. But, again similar to Desnica's unusual setting, how could an entire section of a professional paper be resolved in and with a single statement? The show must go on.

Memories of Socialism: Perception of the Electoral Body as a Colossal Political Obstacle

As a preliminary, the mistaken perception of the dynamic capacity of the socialist system — of its propulsive potential — remains unshakable among the broadest social strata: as the saying goes, among “the large masses” of the population. This is confirmed by many surveys of public opinion. Thus Mihailović (2010, 24-26) finds that, in answer to the question what period was the happiest for the citizens of Serbia — the alternatives having been the period before the Second World War, the last decade of the past century, the first decade of the current century and the period of socialist development —, no less than 81% thought that the socialist period had been the most agreeable! To the question of credibility of institutions, the alternative answers being those of the times of Milošević, Đinđić, Koštunica and institutions of the demised socialist society (Tito's times), the last option won 45% of

the share of answers, while the next answer (Đinđić's times) won only half of the pro-socialist figures — 23%. There are plenty of similar surveys, all demonstrating — in the eyes of the citizens — the superiority of socialist times and their ruling institutions. Indeed, many papers and books have been written on the superiority of socialism in the memory of the broad public. However, the cited figures are sufficient for this purpose.

A far-reaching conclusion drawn from surveys indicating massive desirability for socialism among such an overwhelming majority of citizens concerns the forbidding magnitude of a *political problem deriving therefrom*. With so many citizens yearning for socialism it is next to impossible to build a political platform which would be sufficiently attractive to the electorate and at the same time secure a sequence of institutional changes leading to a successful modernisation of society. Such sequences, no matter how beneficial they might be from the point of view of future economic and social development — and how solid the reasons for its sustainability are — appear simply as a hard sell to the electorate. On the other hand, the conviction of the prevailing majority of the voting public being firmly tied to the would-be superiority of socialism offers ample space for political manipulation and all kinds of abuse, giving an almost insuperable advantage even to those political agents who — ill-informed and inadequately educated — sincerely believe in socialist ways of steering society and to lead the society astray without being conscious in their blessed ignorance of the huge damage inflicted on the country. It takes an Attaturkian political elite, one that will educate the society and simultaneously lead it. One does not need to develop long argumentative chains to prove that the likelihood of such an Attaturkian miracle appearing is negligible.

The lack of sustainability, not understood and not understandable to the voting public, is the key element of an answer to the question on the unsatisfactory development — or at least markedly less rapid than the one realised during the successful episodes of the socialist extensive growth — in the post-socialist development stage. However strange and not easily acceptable it may sound, the principal causes of the less-than-satisfactory *post-socialist development* are contained, and indeed hidden, in the preceding process of socialist development; the lack of preferable performance in the post-socialist — market oriented and, as theory undoubtedly suggests, decidedly more efficient — economy *appears to be ascribable to the system prevailing previously; it is far from impossible that the periods of the most rapidly growing economy contained the seeds of collapse, the determinants of future deceleration and even stagnation*. After all, economists from all over have for a long time been used to the effects of the time lags in economics. Economic phenomena are interdependent not only in a simultaneous cross section but also in the flows and sequences of time.

The burden of the socialist legacy seems to depend on the intensity and the sincerity with which socialist institutions and values were accepted and embraced by large masses of the population. It also seems that socialist ways of steering development at large have particularly deep roots in Serbia. The reasons for this phenomenon are hard to disentangle, but they probably stem from the distant past and peculiar collective memories; for peoples living under alien yoke for centuries collectively merging together might have been the safest and most efficient manner of preserving their identity. Be it as it may, the socialist heritage is not equally interred in all ex-socialist countries and Serbia seems to be among (or *is*) the most handicapped. Socialist legacies in Serbia are quite visible — a high share of the state-owned sector in production, aggregate value added, capital and other macroeconomic aggregates; a large spread of administrative price controls; conspicuous party allegiance as a criterion for selection of managerial personnel and other cadres in the public administration and the public sector; a fanatic preservation of the loss-making public sector giants; a disturbingly high share of nonperforming loans in the banking sector; the inefficiency and the sluggishness of the judiciary; a high presence of destructive ways of enlisting electoral support by judicial persecution of the businessmen, particularly those big and best known... — and it is their bewildering mass that is to be looked at in search for the causes of collective preferences causing slow development. As it turns out, in the recent decade or so there is only one ex-Socialist country with a lower rate of growth of GDP than Serbia. After all, an all too frequently used *ceterum censeo* of this author has to be repeated here, too: the ultimate, truly basic determinants of economic development are located far outside the economy.

Ascribing the present unsatisfactory development to the legacies of the demised socialist system will certainly be met with sharp controversies. That should be seen as no surprise because the facts and their interrelations are numerous and interaction among all these — not even all of which are visible — elements are highly variegated and in a way superimposed upon each other in thick layers. The difficulty of encompassing and clarifying the — in many ways — interdependent effects of extant legacies are perhaps best observed if one takes into account how unclear and poorly understood was the much simpler problem of ascertaining the effects and consequences of the collectivist system at the time of their existence and actual working. It took such a high class annalist as Nutter (1983 [1959]) to disentangle the real achievements of the system and the regularities of its functioning.

The ground-breaking work of Nutter produced a lasting shock not only within the profession but also among a much broader collection of concerned circles in society. The limited information and lack of comprehensive and systematic analyses made it impossible to see the Soviet realities of the time and greatly contribut-

ed to constructing an overoptimistic and unduly favourable picture of the alleged success stories of the “socialist miracle”. The unfounded belief in the extraordinary development potential and unprecedented vitality of the new system continued to dominate professional thinking despite the fact that Nutter established firmly and irrevocably that tsarist Russia experienced more rapid growth than Soviet Union, and, indeed, within periods of approximately equal length (some 45 years; Nutter (1983 [1965], 182). Even more shocking was the discovery that Soviet growth had not been more rapid — the rates of growth are in fact almost equal — than the *comparable* U.S.A’s growth. Namely, there are a number of *noninstitutional factors* affecting development which make for a higher or lower rate of growth and are unrelated to economic efficiency and the propulsive force of the observed system. Nutter took care to isolate such factors as far as possible, mostly by not observing contemporaneous growth and selecting *comparable periods* instead; these were the periods in which noninstitutional development determinants, such as the level of development and a number of exogenous factors, were close in the two countries if not exactly equal (1983 [1965], *passim*, especially pp. 173-177).

Two such evidently unusual findings — that tsarist growth was more rapid than the Soviet development and the higher than rate of growth accomplished by the U.S than in the USSR: in a comparable development stage and similar macroeconomic environment — should have shocked the public both professional and more broadly, but the myth of the Soviet Union’s extraordinary capability lingered on and lasted almost up until the break-up of the Soviet empire. The point of this argumentation is that some truths do not become either easily or quickly accepted and, in fact, the most rigorous proofs don’t contribute substantially to their acceptance. If the truth of tsarist Russia having been somewhat more rapid in its development than the Soviet Union did not get through for such a long time, it is obviously reasonable to expect even more resistance and more time until the relevant findings are accepted when it comes down to recognising the perilous influence of socialist *legacies*.

In comparing the Soviet and American rates of growth Nutter could not take into account the important fact that Soviet growth had been realised as an *extensive growth*, which means through mass mobilisation of production factors, through mere and spectacular *increasing quantities* of these factors rather than through a persistent increase of their productivity. The extensivity of growth is best seen through the relationships between the growth rates of employment and of output — the former being much above the latter. These two development episodes were in fact incomparable as Soviet growth, however rapid, was not sustainable and, on that account alone, was vastly inferior. The lack of comparability derives not only from the simple fact that extensive growth is short-lived if not ephemeral but also from

the fact that it generates pressing *constraints on future growth*. The sluggishness of the development in the future is, in this case, not due to the then-conducted development policies but due to the ways and means through which extensive growth had been realised in the past.

Accelerating development through mass mobilisation of the production factors while neglecting technical progress as the only source of sustainable growth means predetermining a perilous deceleration of future development, when factors of production, however abundant, simply exhaust their growth potential while the necessary pace of technical progress is not assured to take over the role of a driving force in the process of development. A more general statement can be developed here: on the eve of the socialist turnaround — and this happens to be true for any economy at any point in time — the economy had a number of once-and-for-all, temporarily exhaustible development opportunities; and consuming any of them meant that it would not be available in the future. Through extensive growth, but also in other ways — exploiting easy development options enabling the system to accelerate growth substantially for a limited time at the expense of accumulating all kinds of bottlenecks which necessarily dramatically decelerate growth in the future — opportunistic development policies depleted the fund of unrepeatable options and thus achieved marked effects for a limited time at the expense of imminent future slowdowns. The time interdependency of the growth rates makes it impossible to judge the efficiency of any development policy by weighing the simultaneously-realised results, registered at the times to which such policies directly applied. The crucially important, but unfortunately regularly missing, component in judging such efficiency is the dynamic potential which the observed policies bestow upon the future.

The Mechanics of Extensive Growth and the Inevitability of Deceleration

Considerable stress has been laid on extensive growth here. It is therefore necessary to provide a brief theoretical sketch of its dynamics and the factors determining the changes in its pace with ultimate deceleration as an unavoidable result of the nature of the underlying interrelationships. The most concise, the easiest and the clearest way of laying down the pattern of extensive growth is through a mathematical model which delivers definitive and easy-to-comprehend results. The insights provided by the model are exact, obvious and waterproof — of course, all that comes under a number of simplifying assumptions. As mathematics doesn't fit into this type of the paper, an effort will be made to reproduce the mathematical derivations in words.

The key element in this verbal interpretation of corresponding formulae is the rate of growth of capital. It is defined as a ratio of net investment (= accumulation),

i.e. national savings and the capital itself. As national savings are a multiple of the rate of savings and national income, the rate of growth of capital — in the model based on deducting the depreciation and dealing with net quantities — is obtained by multiplying the rate of savings with the national income and dividing this multiple by the value of capital.

Extensive growth is initiated by and boils down to a sudden and marked increase of the rate of savings. The new authorities forged through the revolution are development centered and their political monopoly — a part of their definition — enables them to raise the rate of savings abruptly and vigorously. Indeed, such a dramatic increase of the part of national income — taken aside for capacity expansion by the virtue of the definition — raises the rate of savings and, again by the very definition, the rate of growth of capital. Such an abrupt and strong increase of the rate of growth of capital induces the process of its gradual but sustained *decrease*. Yes, such a discrete upward shift of the rate of growth of capital becomes the cause of its subsequent continuous decline. This is the essence of the lack of sustainability of extensive growth: *as the rate of growth of the rate of growth of capital is*, for a newly fixed saving rate, equal to the difference between the rates of growth of the national income and that of capital; a discrete increment of the latter makes *the rate of growth of the rate of growth of capital* negative. That really boils down to the above mentioned statement that an abrupt, once-and-for-all increment of the rate of capital growth becomes the driving cause of its continuous decline. Extensive growth predictably tends to secular stagnation. All this happens in a set of circumstances in which capital is the fastest growing production factor, which also could be taken as a part of the definition of the extensive growth.

The model is transparently generalised by introducing additional factors of production, additional to the capital and labour which conventionally figure in most models of economic development. In further workings out of these models economists have introduced additional factors such as land — a summary variable for the versatile collection of natural resources. In such a generalised setting little is changed, but one insight comes forth as decisive: in the model of growth based exclusively on the expansion of the factors of production in the long run, a *steady state rate of growth of the national income comes out equal to the slowest growing production factor*. Taking roughly *per capita* income as a sort of indicator of social welfare and a general goal of development policy, the best long run (*steady*) state this generalised model can deliver is *stagnation of per capita income*. If the slowest growing factor is not population-cum-labour force, but any other factor, the steady state rate of growth will be equal to the rate of the slowest growing factor — that rate will be less than the rate of population growth and then one arrives at a macroeconomic set-up of long run or *secular regression*. The model turns into an

analytical picture of long run decline, with a permanent deterioration as the unavoidable destiny of the macroeconomic system (defined as the set of interconnected parts making up the economy as a whole).

The next easy statement refers to the functional requirements appearing as the necessary conditions for sustainable, steady state *growth*. These consist in the necessity for the system to secure a positive rate of technical progress defined as the rate at which national income would grow with fixed quantities of production factors; clearly, such growth must be due to uninterrupted increasing efficiency in the form of equally continuous accumulation of productively relevant knowledge. For the sake of brevity, conditions of regular and continuous technical progress are ultimately reducible to institutionally secured and a legally guaranteed economic freedom of the largest possible number of economic agents — it being understood that the freedom must be guaranteed by the laws of the country and the legal system enforcing them and applying them to all individuals and organisations *equally*. Entrepreneurial undertakings will undisturbedly unfold only with economic freedoms secured and with a proper motivation for a large number of economic units to search for new products and processes and to constantly innovate. The system as a whole learns successfully only by and through the learning of autonomous units appearing as its elements.

When the rate of technical progress enters as an additional term into the formula for the rate of national income growth — the remaining part of the formula consisting of the weighted average of the rates of growth of labour and capital, with the weights equal to the elasticities of the national income with respect to those production factors — the possibility of a steady sustainable increase of income *per capita* props up and one arrives to a configuration of dynamic components diametrically and fundamentally different from an analogous configuration of development trends typifying the extensive development. The rate of growth of *per capita* income generated by this model containing technical growth is equal to the rate of technical progress itself divided by the share of labour in the functional distribution of income, i.e. the elasticity of the national income with respect to labour. It turns out that the rate of *per capita* growth — i.e. per worker or inhabitant (the share of the workforce in population being assumed constant) — is an inverse function of the share of labour in the functional distribution of income. This result would be beautiful even if it were incorrect: in a dynamic context, labour is better off the less it participates in the distribution of income, assuming that all non-labour income is entirely invested into the expansion of productive capacities. Under these admittedly restrictive assumptions, the genuine interest of labour, exemplified by the *speed* with which its income grows in time, is best served with its low — as low as possible — participation in the distribution of current income.

Going back to extensive growth, its tragedy consists in the absence of technical progress due to the lack of economic freedom(s). With an over-centralised economy and its predominant, if not exclusive, administrative guidance, economic units do not have manoeuvring space for independent deciding, an enormous mass of agents are excluded from creative experimenting and the accompanying generating of new technological solutions, so the system is doomed in the sense of having to rely only on mobilisation of productive factors as a source of growth and, at the same time, doomed to a development deceleration in the somewhat longer run. Moreover, such a system generates forbidding constraints on future development, even when it unfolds within a completely reformed institutional order. The public at large, and even a large part of the profession, ascribes development deceleration to this new, market-oriented set of institutions, thus blocking the change and making it politically difficult to continue developing the long-awaited truly decentralised order with its yet unrealised development potential. Mistaken diagnoses and erroneous analyses are not the only and probably not the most important determinant of the mistaken policies but they certainly contribute a lot to them, more indirectly than directly. A detailed analysis of the limitations of extensive socialist growth — spelled out by the models belonging to different classes, those with fixed coefficients and the ones with possibilities of substitution between the production factors — is provided by Madžar (1990, 320-335).

Socialist Heritage Revisited: The Scars in the Collective Memory

A market economy cannot rely on a centrally initiated action and the role of the government in the cardinally important mobilisation of economic resources. At least that reliance cannot be, not even approximately, comparable to the governmental contribution to the mobilisation in the past dominated by the socialist state. The primary movers of resources and key agents in their mobilisation have now become private entrepreneurs with their expectations, ambitions and, to use the well-known Keynes's term, *animal spirits*. Entrepreneurship is a deadly hazardous business by and in itself. It calls for special imagination, extraordinary courage, the affinity towards risky moves and the ability to select wisely from among a vast number of unclearly observed and only partly knowable, never wholly understood options. On top of all that, the choices have to be made quickly and energetically: life never stops and opportunities come and go, with little prospects to reemerge. Few people have entrepreneurial abilities — according to most estimates less than 2%. By performing their function, entrepreneurs contribute an awful lot to the rest of the society: by undertaking their hazardous ventures the visionary individuals em-

ploy and assure the existence of the hundreds and thousands of other, “ordinary” people.

Because of the inevitable objective exposure to risk and all kinds of uncertainty — initiating the new businesses is neck breaking in and by itself — entrepreneurship cannot successfully flourish and smoothly develop if it is additionally exposed to the institutional and policy risks. The basic, indispensable condition for the tolerable development of a market economy is stable, predictable and within the limits of a possible *rule based economic policy* so that at least institutional and economic policy hazards are minimised if not entirely removed. The top economists of the world have persuasively been explaining the actual weakening of developed economies and the malaise of unstable and insufficient growth by the volatile, reactive — here and there whimsical — acting of economic policy, particularly monetary policy, and have pleaded for the introduction of rules in carrying out of most policies, so that economic agents can within reasonable limits predict policy moves as responses to various exogenous events (Metzler 2014; Epstein 2015; Hanke 2016). Let it be added that only a stable, algorithmically clean economic policy can provide a valuable service in coordinating flows of decisions and resources in a decentralised economy.

Not much has to be elaborated regarding the series of fatal blows administered to entrepreneurship by the often discussed series of socialist revolutions. Lives were annihilated and properties confiscated. After undergoing risks and anxieties, upon investing so much effort and thought, following the careful and painstaking considerations of options and alternatives, the happily-acquired results were simply taken, mercilessly confiscated in one single coercive sweep. One should recall that successes in entrepreneurship are incomparably rarer than reflected in the popular perception: the *failed* entrepreneurial undertakings are not seen and the public is generally not even aware of their existence and exact data on failed business ventures will never be available. If on average, say, only one out of a hundred succeeds, it is easy to imagine what a personal blow every confiscated entrepreneur suffers.

Entrepreneurs do *not* carry out their activities just for money; entrepreneurship is the field of their creative activity. By founding and expanding new businesses they *create*. Taking away their wealth would in a sense be the equivalent to somehow wiping = out books and articles produced during a good part of the lifetime of a writer. Attack on private wealth is tantamount to an encroachment on a person and their dignity because the accumulation of property for a successful entrepreneur is the true and only manner of self actualisation, an evidence of having created something of value in their productive life. As owning various things is undeniably an important aspect of the existence of every individual — and since even

moderate size holdings and other forms of wealth were hit by confiscation — it is evident that millions of people were affected and this institutionalised plundering must have left unalterable and irreducible marks in the collective remembering; it is destined to figure as a highly relevant social fact for a long-lasting future.

Confiscation of properties was therefore a mortal blow to entrepreneurship. Along with being an act of destruction of one of the fundamentally important pillars of civilisation, it was a trauma never to be forgotten. Because of the aforementioned deep imprints on the collective memory, society as a whole will remember the horrible downfall into a sub-civilisational abyss and remain conscious about meagre prospects — better to say hopeless perspective of pulling itself out of that barbaric precipice. This historical destruction of property as the institutional carrier of a market economy must have so deeply impressed the population that it clearly appears to be bound to make for a stupendous constraint on all forms of entrepreneurship for a very long time to come.

We are again confronted with a formidable legacy of the socialist order, with an element which originates in the socialist past but generates its deleterious impacts on the post-socialist present. Concrete actualisations of institutional systems in post-socialist countries do and have to differ among themselves, but this effect of the socialist heritage is common to all; it cuts across different systems and remains working and vigorous in time. This is the account on which the performance of all post-socialist systems comes out inferior but, again, the failing is not due to the deficiencies of these arrangements but to the doom of the socialist heritage.

The second powerful component of the socialist heritage in Serbia is a sort of a weird phenomenon which in this analysis will be called *hysteresis*. For the purpose of these considerations *hysteresis* can be defined as a phenomenon of a macroeconomic variable not being able to return to the original position after having deviated from it under external pressures or for some other reason. The subject of these reflections is hysteresis in aggregate consumption which had, for a number of several coinciding factors (some of which are policy driven and other exogenous as far as economic policy goes), been augmented markedly above the level consistent with resource endowment and productive capacity of the country. The principal reason was the abundant inflow of supplementary resources from abroad made possible and in fact conditioned by the courageous and worldwide acclaimed political break of Yugoslavia from the then powerful block of socialist countries dominated by the Soviet Union.

The supplementary inflow of resources was referred to as abundant as it, while oscillating from year to year, reached in certain years no less than 5% of the then used GSP (Gross Social Product). That flow was particularly large in the 1952—1960 period, but continued in some forms in the following years, too. However, when

these flows substantially waned after 1960, Yugoslav workers started taking jobs in developed western European countries — primarily in the then-existing West Germany, France and Austria and, somewhat less, in Scandinavian countries. Such an — at the time — unorthodox export of human capital triggered the continuing guest workers' remittances which substituted for the unilateral transfer from before. Another opulent flow of additional means set in. Then came the 1970ss with the flood of euro-dollars all over Europe and with easy and rich options for raising credits, which the country helped itself of in numerous ways and plentiful quantities. The foreign debt crisis developed after 1980 and only then the supplementary resources inflow thinned. This phenomenon was studied and intensely discussed on several occasions (Madžar 1992a, 1992b).

However, despite the volatility of the inflows and reduction of some of them over time, in a long period lasting some three decades the population adjusted its consuming standards to levels much above what would have been possible had the own-resource constraints been operative. True, the rate of savings in those times was very high, but there remained sufficient room for raising consumption above what could be feasible with exclusive domestic spending potential. Raising consumption much above domestically-generated income and *especially above income that would be available on the basis of strictly taken domestic resources* — one should not forget that the inflow of additional resources made it possible to use much more fully domestic capacities in the structurally distorted socialist economy — greatly contributed to the singularly insufficient future rates of savings which plague permanently the post-socialist economies in most ex-Yugoslav republics.

This author estimated the rates of domestic savings for the 2000—2012 period and found them to be oscillating around zero with negative values in quite a few encompassed years. These were calculated as percentage shares in the GDP of gross investment minus the foreign *trade* deficit. Had depreciation charges been deducted, a horrifying picture would be obtained. Begović (2016, 9-10) cites the estimates of the World Bank for the 2001—2015 period resulting in an average savings rate of 4.8%. The difference strikes one as surprising, but is readily explained by the fact that the World Bank came up with the *national* savings rate whereas the formerly mentioned rate had been the rate of *domestic* savings. The difference between the two is equal to the share of the difference between the *foreign trade* deficit and the *balance of payments* deficit in the GDP. This difference in the case of Serbia has been and remains very high since it contains significant factor earnings mostly consisting of the difference between the worker remittances (a large positive quantity) and the interest paid on foreign debt (a much lower negative quantity).

Be that as it may, the inflows into Serbia of incomes *not generated in its economy have been and remain into the foreseeable future quite significant* and sub-

stantially contribute, actually condition, an extremely low accumulation rate indicating practical absence of domestic savings. This is a very serious long run constraint on economic development and, more generally, on the overall modernisation of society. It appears as an insurmountable development trap the ways out of which will probably not be identifiable for quite some time.

It is of some interest to contrast the case of Serbia with the diametrically opposite case of China. The latter had for decades been doomed to unthinkably low consumption standards and when, in 1978, the radical turnaround in its institutional order took place, a spectacular process of economic growth began and has continued now for some four decades. Income grew extremely rapidly but, due to hysteresis which clearly acted in the direction opposite to that of Serbia, consumption was *not* increasing *pari passu* with income. The result is a series of literally enormous rates of accumulation soaring in some years to an unbelievable 50% (Bergsten et al. 2011 [2009], 150) and persisting at such incredibly high levels despite the severe financial repression through monetary policy — repression which led to negative real interest rates in a considerable number of years (164-165).

Reverting to Serbia, an extremely important element of its institutional reality deserves mentioning. As Pejovich (1998 [1995], 200-204) explained with admirable clarity, a malignant opportunism has been built into the very structure, into the deep foundations of the self-managed institutional system. Namely, due to the fact that the employees, and especially elected managers, had extensive management rights but not property rights, their decision-making horizon had been limited and far from the horizon of infinite lengths implied by the very nature of the rights of ownership. Thus, the employees' horizon was determined by the *limited* expected length of stay in the organisation, which meant that they had extraordinarily strong incentives to raise as much credit as they could get hold of — with a strong motivation to bribe the managers of the banks — and leave the servicing of these debts to their successors getting employment following the current workers' retirement. With such a grave constructive error in the decisively impacting deep foundations of the system, it's no wonder that the Yugoslav economy stumbled from one financial crisis into another and never reached a state of tolerable financial health. Pejovich deserves much credit for illuminating such a shocking flaw in the construction of the system, the flaw which escaped many highly-reputed analysts.

The Backlog of Regional Adversities: The Untoward Consequences of the Collectivist Heritage

The principal proposition argued in this paper is about the belated effects of the demised socialist institutional order: the fall in the rate of growth of the leading ma-

croeconomic aggregates — having become strikingly visible with the institutional turnabout towards market and the associated regulating mechanisms — should not and cannot properly be ascribed to newly-introduced institutions and to the market as such. Rather, they linger on as consequences of the old demised regime. Two adverse (sets of) effects can be discerned here. The *first* one derives from the unsustainability of the old system: growth trends would be broken and the pace of development would surely plummet even further without the widely-advertised institutional shift. As a matter of fact, spectacular institutional change is not the cause of the flattening of economic trends — the causal relation runs the other way around. Political elites of the former socialist countries *would certainly not on their own and just like that abandon the system* in which they had been so comfortably placed. They scrapped it because the system exhausted its capacity for further development and even for normal functioning. The reform was *forced* upon the system and had not come out of the blue just to undermine it and wipe it out from the world's institutional landscape.

The *second* derives from the legacies of the old arrangements and policies. As it, somewhat unexpectedly, turned out, the adverse workings of the system did not stop with its historical demise. The system disappeared but deep scars left after its demise continue to produce shocks and disturbances. Unexpectedly, and maybe even shockingly to the non-professional public and surprisingly even to a significant number of (would-be) trained professionals, the location of causal factors is strikingly different from what it is widely held to be. As indicated above, the not-so-impressive rate of growth and level of other development indicators, registered since the new system came into being, is *not* the result of the functioning of that system but is safely ascribable to the old institutional order, the one which no longer exists!

The ultimate proof of any proposition is its correspondence to economic and social realities. The crucial question is whether it fits into the real sequences of events and interdependencies observed before and following the decisive institutional change. It turns out that legacies of the old system flow along several lines, partly crossing and partly coinciding, and yet clearly discernible and undoubtedly different. They are elaborated in the preceding subsection — in the present section only a few empirical details will be discussed in confirmation of the legacy proposition. The claim is that the socialist system of the former Yugoslavia exhibited some typical features of its *genus proximum* of systems deprived of private ownership as the determining component of their institutional base. The absence of clearly-specified and legally-protected ownership is the key reason why it underwent the same ruin-laden trajectory ending with an inescapable breakdown.

Systems, like people, can suffer a tragic end due to an unlucky series of tragic exogenous shocks. But in this case such an interpretation does not apply: the system faded out gradually — the decline having lasted for decades — and the final causes of destruction came from within. At the time of their demise there had been no wars or similar exogenous destructive shocks to which the ruin of the systems could be ascribed. Alternative and, in a way, competitive systems survived and — some for a certain time — even prospered while the socialist systems were undergoing the irreparable ruin.

As for the Yugoslav economic system, it shared defining traits with the family to whose *genus proximum* it belonged. *Firstly*, it was unsustainable — the proof of which is its historic debacle. *Secondly*, just like all other socialist systems, it was not amenable to any meaningful reforms — to any serious modifications worth speaking of. This is the result of a truly peculiar, probably not-yet-sufficiently studied feature of these revolutionary or forcefully-imposed creations (*NB* coercion is involved in both scenarios). The feature is the following: their defining characteristics are — to use a strange word — *extremistically exclusive*. They do not allow pragmatic combining with some other features suggested or urged by the requirements of practice. Socialism is, in some sense, *fundamentalist* — not being tolerable to the immixing of any ingredients which themselves are not elements of the same pure creed. Socialism cannot be, at least not to a sufficient degree, pragmatically modified while still staying *socialist*.

This is the root cause of another trait shared with all other socialist systems: reforms in these systems were frequent because the problems were frequent and more and more serious, but none of these reforms were allowed to touch what had been considered as essential to socialism. The reforms were, therefore, all over partial and superficial; they generated disturbances and complications of futile adjustments without solving anything. With the fundamental defining components remaining untouchable, the systems stayed in essence *unchanged* which prevented them from gradually and pragmatically evolving into more efficient and sustainable options. In other words, the unique way of their serious changing was a form of “revolutionary jump” and the jump could not have any other shape but a grand and spectacular departure from socialist sanctities. That would have been the only way of getting rid of huge costs and hosts of untoward legacies destined to obstruct the development process for an uncertain but certainly long future.

As for Yugoslavia, early signs of the predicaments of extensive growth appeared quite soon. As early as 1960, the steeply rising trend of GSP growth — exhibiting a rate of growth of some 8% — broke unexpectedly with the rate of growth plunging to below 6%. The authorities mistook this break as an ephemeral, stochastic deviation and continued planning the rate of growth of industrial production at

the earlier high levels (Horvat 1969, 26). As the slackened development persisted, the authorities became alarmed and formed a group of experts headed by B. Horvat. They produced the famous *Yellow Book* (Horvat et al. 1962) with a detailed analysis of various — aggregate and sectoral — components of currently observed movements and with diagnoses of the underlying causes as they saw them.

Two details in connection with this study stand out sharply. The *first* one is the fact that the government and the general public became seriously alarmed having observed the rate of growth of close to 6%; nowadays the authorities in Serbia yearn for a rate of 3% and proudly announce the prospects of realisation of such a “success”. The unusual drought (2017) affected agriculture and the projection of the rate has been scaled down to 2.3%, with serious reservations in the profession about the prospects of achieving even this reduced rate. *Secondly*, no thought whatsoever had been given to the possibilities of this break having been caused by deeper structural causes — to the danger that deceleration might have been predetermined by the nature of the system centered on extensive development as the basis of the strategy of development. The other neglected component of this complicated nexus was the somewhat reduced inflow of free resources from abroad, sufficient to cause a serious stumbling of the economy which had been doped with supplementary means for some eight years.

The amazing thing is that Horvat was then — and remained as long as he lived — the best economist in the country; he taught all of us what economics is all about and the landscape of professional expertise would in Serbia, even today, be incomparably worse had it not been for Horvat’s admirable educational work. With the benefit of hindsight, one can easily conclude that the constraints of knowledge and even of educational processes of further learning were much, much more serious than what all of us would be willing and able to admit at that time. Horvat himself has persevered in insisting on the standard of policy performance which, even from this retrospective, seems unattainable with his most recent writings (e.g. 2002), demonstrating a formidable distance between the realities of economic policy and his normative ideals. Excessively large, veritably vast distances are realisable only with comparable obstacles and difficulties — and with a commensurate taking of time. *Natura non facit salta*.

Later developments offered ample opportunities for diagnosing the untoward tendencies in economic development. Thus, they offered numerous possibilities for professional critics of economic policies and commentators of lacking institutional advancements. Horvat again was at the forefront of such critical analyses. As far as Serbia is taken as the standard of reference — and as far as the level of expertise in and around federal authorities is concerned — Horvat was a man of extraordinary knowledge and heretofore unseen analytical potentialities. He was also a man

of impeccable integrity and incredible courage. A long series of his writings, with some of them assembled (1984) and some others re-edited (2001), illuminated many aspects of the then-led economic policies and clarified with astonishing originality connections between institutional changes and policy moves, on the one hand, and changes in development trends, on the other. Those contributions were analytically sharpened and theoretically clarified, while making fascinating reading to such an extent that one could safely state that his popular writings on institutions and policies have been equally valuable and influential as his purely scientific contributions which have brought him wide international recognition.

Yet again with the benefit of hindsight, one could persuasively conclude that he overestimated the availability of knowledge and the difficulties and constraints on the rapidity and scope of its expansion. It is in the nature of things that the limitations of knowledge can only be seen *ex post*, after additional knowledge had been accumulated and thus opened new vistas on the reaches of scientific endeavors. Much of what could have been useful for understanding the relationships between institutional peculiarities and macroeconomic movements had simply been lacking and the amazing thing is that — occasionally with limited and even mistaken knowledge — useful policies can be conducted and considerable successes obtained.

In fact, many successful policies had been realised on the basis of concepts and insights which later proved to be outright mistaken. As Popper frequently emphasised, any scientific “truth” is temporary, until something different or even contrary is proven. Taking into account how many hypotheses and theories have been refuted, a good deal of various policies conducted in the long past have had false and subsequently refuted theories as their scientific base. It looks that even tentative policies, based on subsequently falsified theories, can ultimately be useful from a reasonably conceived social point of view. That will be the case if they serve as means of mobilising social actions which otherwise would not have happened and, along with that, as cognitive devices for coordinating decisions in the absence of other ways of securing coordination. After all, the geocentric astrophysical theory had for centuries served successfully as a fundamental scheme for long and complicated maritime voyages.

Returning to Horvat — the unique and unforgettable man —, nobody, not even he, could be blamed for lacking insights which only much later became available. But he provided many enlightening pieces of research, produced a more than respectable educational impact and acted as a steady source of pressure on the government and its public service to approach policy issues more seriously and to improve more effectively the analytical apparatus on which the policies had been based. After all, with this or that theory — later maybe refuted or just partly modi-

fied — there is always room for improving policies and minimising failings. It is well known that policy makers have their own preference functions that rarely coincide with, no matter how postulated, the interests of society at large; the “political arithmetic” diverges widely from economic calculation aimed at hitting *social interests*, whatever the italicised word might mean (Madžar 2011, 431). Exerting pressure, which Horvat did with admirable lucidity and extraordinary courage, pushes the government and its public service towards more productive activity and reduces the gap between what they find particularly profitable and more desirable or less damaging for the rest of the society.

Coming back to the defining theme of this paper, the numerous critical writings of B. Horvat pointing to the persistently weakening performance of development policies represent a vivid illustration and even an analytical illumination of the falling effectiveness of strategies of extensive growth and, as such, are unusually valuable irrespective of the fact that the time of his most intense engagement was not ripe for a fuller understanding of the ultimate unsustainability of then-implemented growth. It took considerable time to understand the limited scope of development primarily based on the physical mobilisation of production factors, without the ability and perhaps willingness to affect the changes needed for a lasting and unyielding generation of technical progress.

Summing Up

After the preceding lengthy elaboration, the main points of this text can be summarised in short. A strange and not easily explicable coincidence of unusually-combined phenomena has been witnessed in post-socialist times. The broken down and abandoned socialist system has been replaced with the fundamentally different market-based system which, according to precepts of the theory, represents an incomparably more efficient institutional creation. However, there are imposing pieces of empirical evidence that are strikingly inconsistent with theoretical postulates and corresponding derivations. In some not so short subperiods of socialist development, based on strategies of extensive growth, the rates of growth and other indicators of performance appear markedly superior in the socialist order as opposed to the constellation of post-socialist arrangements. This is a very intriguing and rather disturbing finding. The general public, and even a significant part of professional circles, is inclined to conclude on the basis of this mismatch that the demised socialist system is more efficient and endowed with greater development potential than the post-socialist market-based order which arrived after the big bang of the breakdown of the socialist order.

The purpose of this paper is to show that the just-adduced reasoning is incorrect. To begin with, the breakdown of the system is the most powerful argument

against any claims about its efficiency. The structural disproportions and hopeless retardation of development is not the result of the newly-inaugurated, decentralised private-property based order but, quite to the contrary, the grand institutional change came in the aftermath and as a consequence of major disruptions and blockades of the more or less collectively-steered real system. The irreparable disorder with an irreversible blockade of the complex array of its macroeconomic aggregates made it imperative to acknowledge the debacle of the system and to turn to a fundamentally contrasting alternative. Institutional change would not have happened had not the old socialist system led to an impasse out of which no way out of the collectivist trap could be found while preserving socialist sacred cows. The major reforms were not invented and freely engineered by post-socialist societies; they were forced upon them by persistent and protracted in-time economic crises with no remedies within collectivist institutions.

The systems proved to be burdened with a fatal failure. Their deadly deficiency is their unsustainability. The drastic declines in the rates of growth and other development indicators were built into the very structure of these systems; unsustainability means that they had to enter irresolvable crises and be replaced with fundamentally different institutional constellations or else undergo an even more spectacular catastrophe, with inestimable social costs and associated losses. In other words, the drastic fall in the pace of development was, because of unsustainability, predetermined and inevitable within the framework of the extant socialist system and, as such, cannot be meaningfully ascribed to the post-socialist market based order.

Moreover, the collectivist system of the socialist past has its destructive legacies. Those legacies are the determinants of the considerable difficulties in the functioning of the post-socialist systems and, contrary to popular perception, the causes of slow growth and unfavourable development trends of other macroeconomic indicators are located far outside of the present institutional arrangements. However it may sound paradoxically, they act destructively as the leftovers of the old system were pushed for good out of existence. Deep roots of the past are responsible even for current economic policies as they reflect the constellations of political power created in the bygone socialist order. They are especially strong when acting in combination with living remnants of the past social psychology with so called *care for man* as one of the most pernicious: citizens and voters are, for most of the time, ready to hold government responsible and to blame it for the difficulties which they themselves should be obliged and able to resolve. Legacies of the old system produced a multitude of inhibiting influences and constraining effects quite independently of the structural traits and functional properties of the new system.

In favour of the presented argument referring to the somewhat unexpected location of the growth, constraining impulses could perhaps be adduced an *argumen-*

tum ad hominem. The twentieth congress of the Communist Party of the Soviet Union (1956) revealed atrocities and unheard of abominations of the Soviet system. *Confitens reus optimus testis*. Being a member of the same family, the Yugoslav system, with which Serbia has to come to grips today, could not have been *fundamentally* better. Taking into account huge costs, including those inestimable in terms of human lives, such systems could not have been efficient and could not have growth and even survival potential. But if they did have the potential to survive, that would have been a pity; their survival would come to the grave detriment of their respective societies. On any reasonable set of value judgments, the costs implied and generated by such systems are too big in relation to the benefits — especially have to be pointed out again in terms of human lives — for them to be judged as rational or desirable on any count. As for benefits, it looks as if the majority of the economics profession, as well as of the general public, would agree with the hypothetical judgment that Russians and other ex-Soviet peoples have a lower living standard today than they would have had had the *Great October Revolution* not happened at all. The Russian Federation is, according to some considerations, a less developed country, precariously depending on the price of the energy carrying raw materials and, in some important aspects, resembling Saudi Arabia. The lack of sufficiently vigorous technical progress appears to be the principal message of the general diagnosis of its economic position.

Conclusion

The bursting of socialist revolutions looks irresistibly as a colossal civilisational crash. It imposed devastating damages and victims upon many societies and caused costs and losses that would never be recuperated. It left behind deep scars with many horrifying implications for the economic present of the afflicted countries and certainly for an indeterminable but evidently long future. Individuals and societies will have to live long with the consequences of their damaging workings.

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