

POPULISM AND ITS IMPLICATIONS ON THE ECONOMIC GROWTH MODEL IN SERBIA: WHAT HAVE WE LEARNED SO FAR?

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A b s t r a c t

The main purpose of this paper is to show how the pursuit of political identity in Serbia, especially after the beginning of the transition process, influenced the inability to create its long-term sustainable growth model. After a brief theoretical overview of the basic tenets of political and economic populism, this paper will try to show using certain processes of transition (deregulation, privatization, state relation to the real sector, etc.) as an example, that still there is no clear idea which, indeed, are the economic potentials of the long-term sustainable growth of the Serbian economy. Instead, the practice has shown so far that reform processes have taken place spontaneously, without a clear vision and conception of economic development, and are often influenced by Western European experience and recommendations. The lack of a clear vision of economic growth and development, on the one hand, and as it seems, a dogmatic and ideological approach to economic reforms and economic policy, appear to be a suitable economic ground for the awakening of political and, consequently, economic populism in Serbia.

Keywords: political and economic populism, transition, economic growth, economic development, Serbia

The 1888 Constitution adopted at the Great National Assembly of Serbia, held on December 22, meant the beginning of parliamentarism in Serbia. That Constitution was one of the most modern at that time, representing the peak of Serbian parliamentarism, whose adoption formally placed the Kingdom of Serbia in the ranks of European parliamentary states. Despite these characteristics, the Constitution did not suppress certain restrictions on politics and political life in Serbia, which were still strongly influenced by authoritarian and populist tendencies of representatives and holders of political power.

Numerous political reforms and changes in the political system of Serbia from that period until today have failed to suppress the authoritarian and populist dimen-

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sions of politics, political parties, and politicians. Moreover, it can be said that this is their dominant characteristic, which results in the suppression of critical consciousness and individualism, which should be respected as a legacy of establishing democracy and its basic values everywhere in the world, even in Serbia. However, going through all the reforms and metamorphoses of the political system of Serbia, the individual is in the same way transformed from a citizen, aware of his political and civil rights, then to a member of the people (mass) in which all this is lost, disappears, have drowned in the concept of “Brotherhood and Unity” — the community of nations and unity of the working class, and finally, to a turn towards ethnic self-identification. As a result, all his political potential disappears.

As one of the most important social spheres, and under the great influence of politics, the economy could not be immune to the influence of populism and its numerous limitations. This is especially visible after the Second World War, when authoritarianism and political one-dimensionality spilled over into economic life, mostly in the form of mass industrialization, numerous youth actions of workers, nationalization, and collectivization (social ownership) of property, etc. The one-party system in Yugoslavia found its economic foundation in skillfully creating economic populism. It seems, however, that the real challenge is to analyze the political foundations of economic populism in Serbia after the break-up of Yugoslavia, the introduction of a multi-party system, and the beginning of the transition process. We are talking about a period of 30 years, considering that the transition process in Serbia is still ongoing. In this paper, special attention will be paid to the analysis of certain economic segments of transition, especially privatization, to show that this process has been skillfully used (and still used) by political authorities and other political representatives to strengthen and expand their political (and economic) populism and, accordingly, their power.

In this paper, we will try to answer two dilemmas. The first refers to the effects of the discontinuity of the political order and the political system on the building of political institutions, which resulted in the impossibility of developing a clear political identity, both of the individual and the state as a whole. The second refers to the lack of economic preconditions, more precisely quality economic institutions, as a basis for creating a long-term sustainable model of economic growth. Using the theory of path dependence, as one of the concepts of institutionalism (North 1990), which analyzes the change capacity of institutions by taking into account their historic structures, on the one hand, and macroeconomic populism (Dornbusch, Edwards 1990), on the other, we will try to show the lack of a clear vision and strategy regarding Serbia’s economic growth model. By analyzing the results of the privatization process and the attitude of the political elite towards the deregulation process, as one of the foundations of the overall transition (political and econom-

ic), we will show that the attitude of political authorities and economic reformers towards these processes was extremely voluntary, with a clear absence of a political will, and in some periods the ability, to implement transitional reforms efficiently and consistently to the end. This approach and attitude towards economic reforms develop opportunities for the emergence and then expansion of the mechanisms of economic, and thus, political populism in Serbia.

Briefly about populism

We will start with the definition of populism. The scientific literature (Matić 1998, 270) that deals with this phenomenon define populism as a certain social tendency, process, or movement. Populism, on the one hand, represents a certain political style, i.e. the method used by political elites, while, on the other hand, populism, which is the dominant feature of political life in certain countries, is spoken of as a regime. If, on the other hand, it has become established as a model of political life, populism can even be seen as a system.

Thus, as can be seen from the above definition, a really wide range of political and even social phenomena and processes can be subsumed under populism. To make a certain systematization of this phenomenon, Matić (1996, 271-273) distinguishes between two main groups of populism: agrarian and political populism. Within the agrarian one, he distinguishes peasant populism (promoted at the end of the 19th century by the American People's Party), then the populism of peasant movements in Eastern Europe and the Balkans, with pronounced national and ethnic-populist admixtures, and revolutionary romantic populism, combined with the messianism of "great leaders", PRC, Cuba, African countries). Within political populism, Matić distinguishes between various established populist forms, such as populist dictatorships (Peronism, etc.), populist democracies (characterized by radical theories of people's sovereignty, in which various forms of direct participation and declaration of the people are practiced), and, finally, reactionary populism (which shows marked intolerance towards other social strata, races, elites, etc.).

Populism, according to other authors (Hopkin and Blyth 2018), can also be viewed and defined as an anti-elite discourse that pretends to represent a morally charged idea of "nation" as a whole, at the same time denouncing the existing institutions for treason or failure to properly represent the people. In this context, one can find reasons why populism also relies on authoritarianism, with a strong tendency towards charismatic leadership and personalism. Criticisms of the populists are most often directed at the establishment, with a tendency to replace it with a form of government that is largely based on the people's will.

In addition to the above explanations of populism, we must not omit another very useful interpretation (Guiso, Herrera, Morelli, and Sonno 2017, 3), which, in

addition to the anti-elitist dimension, emphasizes that populists share the fear of people's enthusiasm and promote policies regardless of long-term consequences for the country. The three important components of populism, according to this interpretation, are: 1. the populists' claim to be on the side of the people against the elite (so-called supply rhetoric), 2. the fears of people's enthusiasm (so-called demand conditions that populists give in) and, 3. neglecting of future consequence (short-term oriented policy).

This attempt to decompose populism, in economic terms, to the side of supply and demand, is important for understanding the short-term nature of populist politics. The demand side, which refers to the so-called fears of people's enthusiasm meets with the side of the offer, that is, the populists' claim that they are against the elite and, as such, on the side of the people. In this context, short-term protection represents the moment in which supply and demand meet. This is especially pronounced in situations of economic insecurity when people try to overcome new problems as soon as possible. More precisely, they require short-term protection. On the other hand, short-term supply-side politics, i.e. populist politics, is based on the dichotomy of people against the elite, because the long-term is considered the interest of the elite (Guiso, Herrera, Morelli and Sonno 2017, 8-9).

Thus, based on the above analysis, there are clear differences between left and right-oriented populists. The entry of left-wing populists into politics is mainly motivated by their commitment, and then by the fight to reduce inequality, while their policy would be focused mainly on those groups of people who depend on the way the state implements the policy of distribution. On the other hand, right-wing populists will focus on issues of national identity (Guiso, Herrera, Morelli and Sonno 2017, 11-12).

We see, therefore, that populism gains importance only when it is politically institutionalized. Until then, its range is very limited. To politically institutionalize themselves populists and populist parties must win political power. More precisely, they must participate in political elections. The question now is, what is kind of authoritarian dimension of populism we are talking about if populist parties participate in democratically organized political elections. This implies that by participating in elections, populist parties respect the democratic order as such, so their authoritarian dimension cannot be explicitly discussed. However, the moment they get elected, the populists turn to their policies and the way they are implemented, which is, without a doubt, very close to authoritarian political systems.

Other authors (Acemoglu, Egorov and Sonin 2011, 2-31) offered a view of populism that explains the participation of populist parties in elections, and especially their behavior after winning them. Namely, they believe that the policy of populism is characterized by the support of a significant part of the population, but after win-

ning the elections populist parties often endanger the economic interests of this majority. Namely, populism is most pronounced in those countries characterized by a high level of economic inequality, followed by weak political institutions (and often as a consequence of the same), which allows rich elites to significantly influence political decisions — the way they are made and their content. They prove that it is in these societies that there is pronounced political corruption and the so-called “political betrayals” by populists, who make a drastic turn from the policy of redistribution and accompanying rhetoric, toward policies in line with the interests of the rich elite.

Of particular importance are their conclusions regarding the participation of populist parties in elections (Acemoglu, Egorov and Sonin 2011, 31):

1. policies are more likely to be populist when the value of re-election for politicians is higher;
2. if a politician is right-wing, his policy is more likely to be populist;
3. the more likely it is that a politician may be corrupt, the more likely it is that his policy will be populist;
4. populist policies are more likely in highly polarized societies, starting from the assumption that with greater polarization of society, the benefits of re-election are greater for both left- and right-wing politicians;
5. insufficient voter information about policies increases their populist bias;
6. as the uncertainty of the election of current politicians increases, so does populist bias;
7. finally, politicians who are more future-oriented are more likely to be populists because they are more willing to adopt those policies that are not so much focused on their personal well-being, but solely on gaining an electoral advantage.

These characteristics indicate that there is mutual mistrust between populist politicians and their voters. Namely, despite the populist rhetoric of politicians, their voters believe that after gaining political power in the elections, politicians could have a certain “hidden” program in favor of realizing the goals of the rich elite, on the one hand, which opens the possibility that they could be corrupt, on the other. This indicates that the basic driving force of populism is the weakness of democratic institutions.

Dealing with the analysis of the mentioned forms of populism, we will single out several of their common characteristics, which also represent some of their main features (Matić 1998, 274-275):

1. glorification of the people (Populus, ethnos, but not demos), and “small, average man”, as bearers of political wisdom, truth, and social justice;

2. resistance and distrust towards political elites, intellectuals, as well as liberal values of an open political match;
3. striving to mobilize the broadest social strata, to provide political support to the leadership and order;
4. the tendency of leaders to directly address the people (mass) and political communication leadership — mass, personalization instead of institutionalization of politics;
5. the use of public manifestations and propaganda (e.g. opening of highways, factories, etc.) as a form of expression of “people’s will” that should provide support to populist leaders;
6. the use of traditional symbols as well as collective frustrations, irrational fears, and emotions of the masses (nationalism, xenophobia, fear of conspiracies, etc.) to transform them into means of manipulating the people and strengthening the position of popular leaders;
7. resistance to political pluralism and the pursuit of concentration of power in the hands of the leader or oligarchy while preserving pseudo-democratic rhetoric;
8. hostility towards the large property, market economy, and competition and favoring small business, cooperatives, and traditional forms of business and living, with resistance to modernization;
9. a tendency to political, non-economic use of national income, various political redistributions, as well as tactical satisfaction of social demands of the masses and lower strata to the detriment of long-term development and prosperity.

Populism and its economic effects — economic populism

In the previous part of the paper, we offered several definitions of populism, to better understand this phenomenon. The existing literature on political economy in the analysis of this phenomenon and its economic effects focused on explaining the demand for populist policies and through such an approach offered some of its views on populism (Guiso, Herrera, Morelli and Sonno 2017, 7). One such interesting position is the development of the paradigm of populist macroeconomics (Dornbusch and Edwards 1990), as a policy perspective that emphasizes economic growth and redistribution of income without emphasizing the risk of inflation and deficit financing, various external constraints, etc. However, it is external influences (debt crisis), together with domestic structural policies (nationalization of banks), and inconsistent fiscal and foreign exchange policies that result in an unsustainable situation, in which inflation spirals out of control and foreign exchange restrictions force policymakers to be realistic. On the other hand, it is of great importance to explore

populism, from the economic aspect, on the supply side. Guiso et al. (2011, 7) point out that Dani Rodrik is an exception in that sense, focusing on the shocks of globalization, claiming that the waves of globalization can predictably lead to a populist reaction at a certain moment (at the time of shock) followed by a certain geographical pattern (usually refers to countries most affected by globalization). Hence, it is important to analyze populism on the supply side as well, to understand the chosen orientation of populist parties.

Populism is most often associated with left-wing parties, which criticize the current economic situation — dissatisfaction with the country's growth performance, initial conditions, etc. (Dornbusch and Edwards 1990) Increasing economic inequality provides a fertile ground and political attraction for a radical turn in economic policy, which usually begins or ends with economic populism.

On the other hand, we can also talk about the populism of the leading political structures, which we are witnessing today in Serbia. The political background and political ambitions of placing populism on the part of both the opposition and the government can be understood as striving for the same goal but in a different way — to change one political structure for another to come. Unfortunately, that is the main feature of political life in Serbia — the non-existence of political and ideological identity. From the aspect of populism, one gets the impression that it is taking on unprecedented proportions in Serbia. Despite attempts to find understanding for this kind of political life in Serbia, where the same political parties and, even more problematically, the same political representatives and individuals have existed for more than three decades, the bad impact of such a policy on the economy cannot be ignored.

The lack of ideas in politics and the pursuit of narrow personal and party interests results in the lack of ideas in economic policy, with one difference — the worst that can happen to a political party is to lose elections in the political arena and step down. However, the economic effects are long-term, and even incomparably more harmful to society as a whole.

This can best be illustrated by a change of government, or frequent political changes within the government, the so-called political cycles (political macroeconomics). Frequent changes in political course or frequent changes within political power result in high economic costs. This can best be explained by the concept of "path dependence". According to this concept, from the economic point of view, long-term good economic results can be expected only if it "does not turn off the road". Pierson (2017, 74) also talks about that, referring to the excellent analogy of Margaret Levy, who uses a tree, composed of many different branches and twigs, instead of a road to explain this concept. Although it is possible to turn or move from one branch to another — primarily due to the rot of the first — the branch

you started with is still the same one you are moving on. In the institutional context, established, stable and quality institutions strengthen further development. Many economic institutionalists (North, Acemoglu) point out that once established, institutions are difficult to change, and that each change causes great costs. Without quality institutions, there is no significant economic growth. In this context, Pierson (2017, 89) rightly observes that policies are generally easier to change than the constitutive rules of formal institutions, but despite this fact, they represent very importantly limiting features of the political environment.

So, before we move on to a concrete analysis of economic populism, we must distinguish that despite having a bad impact on the economy and living standards of citizens, populist policies remain very attractive to a good part of the public, but we see that political parties resort to them, especially during election campaigns. Given the short-term nature, which is one of the features of the populist policy, and which occurs on both the demand side and the supply side, the damage that such a policy causes prevail in the long run.

To better understand this relationship, we will use the analysis of Hopkin and Blyth (2018), who have explored the significance of different “growth models” and “macroeconomic regimes”. It is important, as they point out, to distinguish these concepts because they point to a corpus of institutions and ideas whose analysis can establish a connection between the rise and fall of specific macroeconomic regimes and models of growth and accompanying forms of policy, especially the rise of populism around the world in recent years. They claim that the populism of “great people”, which is very pronounced today, is just one of the symptoms of the collapse of traditional political parties and party systems, especially focusing on the growth regime in Europe in the period from 1977 to 2007, which resulted in the so-called catch-all political parties, with a vague ideological orientation, but with a clear goal to include as many people as possible in their activities. Namely, after the post-war period, the model of economic growth was based on full employment, investment in the real sector was encouraged, while the financial policy was strictly kept under control. The whole system relied on high levels of demand-boosting consumption. Thus, states were primarily responsible for providing jobs and wages. There was no talk of any market interventions. With the transition to a new growth model from the 1970s to 2008, with an emphasis on curbing inflation, reducing the role of the state in the economy, and opening the space for the market to function freely, a new economic environment is created to which parties must adapt. It began with a decrease in voter expectations, to reduce the political obligations of the parties, which had previously been excessively expanded. Left parties have declared their commitment to the free market and the global economy, while right-wing parties have turned to criticism of the “neoliberal” concept. Creating so-called

catch-all parties, adjusted to the growth regime in the observed period, had, as the above authors point out, three critical weaknesses:

1. Governing nothing is fine so long as nothing is wrong because voters notice when the parties do not have the ability or tools to respond effectively to emerging problems;
2. Catch-all parties have also led to the cartelization of parties, which, whether they wanted to transform the system or simply profit, created new challenges in the long run;
3. Finally, if the post-war growth model failed due to the cost of inflation, the other failed due to the cost of inequality in various forms (housing, income, mobility, assets, etc.), and catch-all parties were less and less able to solve new problems, which created fertile ground for the development of political and economic populism.

We will now turn briefly to economic populism. It is characteristic of economic populism that it occurs in the conditions of economic crises and is directed towards that part of the population that is most affected by the effects of those crises, e.g. if we observe the process of transition, the so-called “transition losers” are the target group towards which economic populism is directed. So, from the economic point, populism always has a negative connotation, that is, it means a short-term irresponsible policy. In the previous part of the paper, we briefly referred to one of the features of populism towards which it is anti-elitist, i.e. on the side of the “people” against the “elite”. In this context, Rodrik (2018, 196-199) argues that populists despise the limitations of executive policy because they fight for a certain “common” interest and that restrictions on the exercise of executive power undermine the will of the people. It is easy to see the many dangers that can result from this attitude towards the constraints of the executive, where basic democratic institutions in society are finally undermined.

Despite the generally accepted fact of the connection between politics and economics, as the two most important social spheres, Rodrik, for the aforementioned reason, believes that when it comes to populism, a clear distinction should be made and that political and economic populism does not always go hand in hand. Economists believe that in the situation of short-term economic interests of politicians, there should be certain rules and procedures, and mechanisms of certain autonomous technocratic agencies to which decision-making will be delegated. The reason is simple — the policy is often inconsistent in time, which is in contrast to economic policies that are desirable in the long run. He cites the example of the state’s treatment of foreign investors, who, after the investment, as he points out, can become trapped due to the whims of the state. State promises made to at-

tract foreign investors can be easily forgotten and replaced by policies to fill the state budget. In that case, foreign investors decide to invest in another country.

Rodrik (2018, 196-199) warns that the commitment to the rules and the delegation of decision-making has another side and can also serve to advance the interests of certain narrow groups to strengthen their temporary advantage in the long run. Thus, the result is the creation of extractive political and economic institutions, created by politically powerful elites to extract resources from the rest of society. However, he concludes that the populism that undermines liberal, pluralistic, democratic norms is always dangerous. In contrast, economic populism is different, especially in cases where it is perhaps the only way to prevent its much more dangerous cousin, political populism.

It has already been said that economic populism is characterized by the possibility of achieving good results at the moment. If so, then what are the problems with this kind of economic policy? Searching for the answer to this question, Popović (2017, 24-27) states several phases of the application of economic populist measures. For the first phase, she points out, there are no harmful consequences: inflation is stagnant, incomes are rising, the exchange rate remains unchanged, and in cases when domestic debt is growing, this situation reaches the optimum in terms of Pareto: improving some does not worsen the position of other participants in countries economic life. However, these results are short-termed, and when they dry up, the situation becomes even worse than it was before the initial application of populist measures. Then the second phase is coming, followed by numerous problems — when excessive costs come to charge. On the whole, the economy ends so that at the end of the second phase, it is no better than it was before the introduction of populist measures. If economic populism continues, in the third phase there will be a drop in production, tax revenues, necessarily subsidies, as well as other benefits, and wages. Increased instability also results in the withdrawal of foreign capital, the domestic currency depreciates, and often inflation rises at the same (or higher) percentage. The economic downturn is becoming apparent. In the fourth phase, a strict stabilization policy is introduced, and when this work is done successfully, it is necessarily accompanied by statements that real wages have fallen to a lower level than they were before the introduction of measures of economic populism. So, Popović concludes — the measures of economic populism are effective, but they are short-termed, and they also have excessive costs.

The analysis of economic populism could be summarized as follows: despite possible short-term effective measures of economic populism, and based on the above four phases, it is evident that in the long run there are major disturbances in the economy that can only be suppressed by stabilization policy measures. On the other hand, economic instability also leads to political instability, which means in-

stitutional instability. The biggest problem of economic populism is precisely the excessive reliance on the state in terms of overcoming its negative effects, in which subsidies play a major role.

The political dimension of economic populism in Serbia

The introduction of a multiparty system in the early 1990s did not lead to political stabilization. On the contrary, things have become more complicated. The ideology we knew before becomes history, and various “national” goals come to the fore, often as a cover for certain structures to gain political power and take over and control public or state resources. This was (and is) an excellent basis for the spread of corruption at all levels of government. At that point, political and economic populism has been skillfully used (and is being used).

However, the transition process that began in Serbia in the late 1980s, due to the turbulent 1990s (war, sanctions, NATO bombing, etc.) was completely stopped, which is why many agree that the period of political transition began with changes after October 5th, 2000. It was considered a turning point in the political and even economic life of Serbia. Unfortunately, expectations were not met, as a period of weak coalition governments ensued, with numerous political cycles², resulting in an unstable political and institutional environment. Political instability and weak coalition governments whose members, representatives of political parties, were only interested in retaining political power, or participating in the decision-making process, provided a suitable environment for maintaining and later developing authoritarian elements of the political system, with pronounced characteristics of personal authority (especially in the last ten years). In short, the political system of Serbia, as we have seen throughout history, and especially today, can be defined as a system of authoritarian populism.

We must admit that no post-socialist country during the process of political and economic transition has encountered all the problems that accompanied the political and economic transition of Serbia. Precisely those circumstances in which Serbia found itself at the end of the 20th century, represented a suitable ground for the development and flourishing of ideological political and economic populism. The

² Political cycles are specific to countries in transition, more precisely to those countries that have opted for building a market economy (economic transition) and building political democracy (political transition). They arise as a consequence of the lack of established institutions (both economic and political), i.e. their dysfunctionality. (More: Tmušić 2014, 141-163).

political changes that took place after 2000 in Serbia, as it turned out, only made the path to final democratic consolidation even more difficult.

However, what is most worrying, and what was mentioned at the end of the part of the paper on economic populism, is the fact that there is still a very pronounced awareness among people of the political dominance over the economy. Of course, it is known that political decisions have economic outcomes and that without a successful economic policy there is no successful political policy, but it is very problematic to remain aware that politics is the most important social sphere, to prevail over the economy and other social spheres. The social consequences of such a way of thinking are far-reaching and very harmful — we have already mentioned the suppression of political potential (lack of individual consciousness and critical thinking, etc.), but also the economic consequences (suppression of individual initiative, competition, and entrepreneurial spirit at the expense of the belief that without connections with the political elite one cannot prosper economically). This ultimately results in an excessive (and seemingly unnecessary) reliance on the state and its assistance (e.g. subsidies), which is contrary to the proclaimed political and economic goals of the transition, which could be summed up by reducing the state's role and its initiatives in economic as well as political life.

This attitude towards political and economic reforms has two sides, which Matić (1998, 56-57) also points out³. On the one hand, we have individuals who, on the margins of society and as such, often become victims of indoctrination and numerous external and internal influences, doubt their attitudes and, consequently, become increasingly dependent on the political will of government officials. On the other hand, political actors who base their political action on populism are in a state of constant uncertainty in which they constantly impose themselves as the only ones capable of pulling society out of the crisis, reformers on whom the future of the whole society depends. In such circumstances, populism takes on unprecedented proportions, reaching its peak, because on the one hand we have individuals who have abandoned their original beliefs and, as such, become objects of political manipulation, while on the other hand, we have politicians who make political decisions and manage economic state resources.

³ This situation of socio-political apathy and social stratification on those who do not want to participate in political life and those for whom politics is the only occupation (for some even the first employment) in life, is best explained by the following observation: "Indeed, because of the 'ugly face' of our political passions and schisms, much better people and shuns politics, giving way to the worse, so that on the surface of public life, with the support of egomaniac leaders, emerges the lowest social element, poltrons and characteristic, often selfish social scum, which, except in fickle politics, cannot be confirmed in any other area of human creation and action." (Matić 1998, 56-57).

Economic effects of political populism in Serbia — economic populism in practice

In this last part, we will look back at the economic effects of populism, which we will analyze in particular through the process of privatization and privatization of the industrial sector, to point out the lack of a clear reform strategy to complete the overall economic transition process. This resulted in slowing down and stopping the entire economy, further deterioration of the economic situation in the country, which on the one hand opened space for economic populism to flourish, and on the other hand, contributed to the growth of corruption and the creation of a new class in society, so-called tycoons. Frequent political cycles, followed by the economic crisis, together contributed to the rise of political and economic instability and the slowdown of political and economic reforms. This created an unpredictable business environment, and it is known that the business environment is a reflection of the quality of institutions in each country.

The first step in reforming the political and economic system of Serbia was the creation of an institutional base, more precisely formal institutions (an appropriate set of reform laws). In this context, deregulation was a key process, followed by economic liberalization and privatization.

As a process aimed at reducing and eliminating numerous internal and external obstacles to the free functioning of the market, deregulation had to “deal” primarily with several political influences that controlled economic flows and, as we pointed out in the previous part of the paper, incited corruption. On the other hand, deregulation meant reducing the state apparatus — numerous state agencies and organizations, among which there were some whose competencies coincided with certain line ministries. In short, deregulation meant the consistent application of appropriate legal solutions, without exception.

In transition countries, including Serbia, the comprehensive social transformation has opened several important issues: first, harmonization of legislation with the principles of the market economy, and second, harmonization of legislation with European Union standards. The adoption of new legal solutions in Serbia would often turn into mere copying of EU legal solutions, which resulted in the imposition of solutions that did not always correspond to the reality of the economic environment of Serbia.

Therefore, the success of legal reforms is reflected in the number of adopted legal solutions, and their harmonization with European standards. Such an approach proved to be insufficiently effective because the inherited conditions and economic structure of the Serbian economy were not sufficiently respected. Such a

reformed legal framework would sometimes open up new possibilities for non-compliance and non-application of the essence of legal norms.

The creation of an appropriate normative environment was aimed at paving the way for the liberalization of the economy and the privatization process. In the following, we will look back at the privatization process, and also analyze its impact on the real sector, with an emphasis on some key elements in the analysis that clearly show how much the influence of economic populism in these processes has contributed to reducing their economic effects. These processes clearly show the combination of political power and its economic effects, which is also reflected in the functioning of economic institutions. Thus, those who have political power can regulate the actions of economic institutions in the direction that corresponds to the realization of their interests.

The process of privatization, i.e. ownership transformation, is only acceptable if it leads to increasing the efficiency of the economy, as an economic goal. Of course, in addition to the pronounced economic dimension, privatization has a political, social, but also moral dimension. In that sense, the choice for an appropriate model of privatization could not be a matter of a simple choice between the offered alternatives, but it was necessary to take into account primarily certain economic requirements, i.e. economic incentives, contained to different degrees in different forms of ownership. Hence, any attempt to politicize and dogmatize this process posed a danger not only of reducing the economic effects of this process on the Serbian economy but also of creating a realistic politic-economic basis for the establishment of a dictatorship. Given that from the very beginning of economic reforms, privatization was said to be the main lever of transition, it is clear that from the very beginning the political authorities saw opportunities for political manipulation of this process, with pronounced elements of economic populism, which at some points outgrew a complete dogmatic approach. Consequently, the politicization of privatization, in line with the political potential it brought with it, was accompanied by an evident conflict between politics and the economy. This means that completing this process within the legal deadlines would reduce the space for political manipulation and economic populism, which the ruling parties skillfully used. Therefore, it can be said that there was no political will to start reforms seriously.

At the heart of the reforms were failed state-owned enterprises, which revival was the most important state project, accompanied by numerous dilemmas. The dilemmas were related to the concept of reforms — whether to implement all measures (stabilization, liberalization, and privatization) at once or to go gradually, to delay their social consequences. The situation in society at that time would be best described by the term “socialist controversy” (Stojanović 1995, 35-36) — long and

complex theoretical discussions within economics on whether it is possible to organize a society with socialist principles (absence of private property and market) so that it is economically efficient, but also democratic. So, even though some issues should not be more controversial or open, because they are theoretically proven and empirically verified, they come to the fore again. The best example that can illustrate this situation is the legal measures that practically stop the process of property transformation and the creation of institutions necessary for the overall reform of the system.

The absence of appropriate and lasting political and economic institutions has negatively affected the success of overall transitional reforms. The discontinuity of legal solutions, as a consequence of political instability, made it impossible to establish a stable institutional framework for privatization, the results of which only partially coincided with expectations.

The lack of a clear privatization strategy in Serbia, and the lack of political will to carry out the process to the end can best be seen in the example of legal solutions, which in the first decade (until 2000) was six⁴, and since 2000 there were four.⁵

In the initial stages of privatization in our country, it was believed that rapid privatization was necessary because the slow process of changing the ownership transformation "... will melt the substance of social (state) property so much that we will soon have nothing to privatize." (Economic Policy 1998, 16-17) As a consequence of such beliefs, there are companies in social and mixed ownership, which have recorded losses from year to year. Losses were not covered, as the companies were continuously in losses, and did not have a profit from which to cover losses, which constantly increased the value adjustment of capital (losses as value adjustment) so that their own capital "melted".

After the political changes in early 2000, much was expected from privatization. Or so it is presented. By switching to the model of privatization based on sales

⁴ Law on Enterprises (Official Gazette of the SFRY, No. 77, Year XLIV, December 31, 1988); Law on Trade and Management of Social Capital (Official Gazette of the SFRY No. 84, Year XLV, December 22, 1989); Law on Amendments to the Law on Trade and Management of Social Capital — Law on Social Capital (Official Gazette of the SFRY, No. 46, Year XLVI, August 10, 1990); Law on Conditions and Procedure for Converting Social Property into Other Forms of Property (Official Gazette of the Republic of Serbia, Year XLVII, No. 48, August 5, 1991); Law on the Basis of Change of Ownership of Social Capital (Official Gazette of the FRY, No. 29, June 26, 1996); Law on Property Transformation (Official Gazette of the Republic of Serbia, Year LIII, No. 32, July 22, 1997).

⁵ Law on Privatization (Official Gazette of the Republic of Serbia, Year LVII, No. 38, June 29, 2001); Law on the Privatization Agency (Official Gazette of the Republic of Serbia, Year LVII, No. 38, June 29, 2001); Law on the Share Fund (Official Gazette of the Republic of Serbia, Year LVII, No. 38, June 29, 2001); Law on Privatization (Official Gazette of the Republic of Serbia, Year LXX, No. 83, August 5, 2014).

(tenders and auctions), a larger inflow of foreign direct investments was expected, as well as an increase in budget revenues. There was a sharp increase in budget revenues from privatization in 2002 and 2003, before starting to decline in 2004. The fiscal effects of privatization in Serbia should have had a threefold effect (Privatization Agency 2005, 155-156): (a) an increase in budget revenue either directly from the transfer of privatization proceeds to the budget, or indirectly through increased profitability/liquidity of privatized companies to increase tax revenues, (b) financial injection from privatization proceeds aimed at the recovery of the Pension and Disability Insurance Fund, (c) reduction of subsidies and other forms of financial support to socially owned enterprises. However, as the biggest fiscal burden on the Serbian economy, subsidies remain, which are generous and largely indiscriminate, and thus economically unjustified, behind which, according to the Fiscal Council (2012), stands an insurmountable obstacle to restructuring and/or privatization of state-owned companies.

In Serbia, 671 privatization contracts were terminated in the period from 2002 to 2012, which is 41.5% of the total number of privatized companies through tenders and auctions (due to non-fulfillment of contractual obligations in the group of tender companies, the termination is 55%). These companies employed 45% of all employees. Part of the assumed obligations was never paid, which is why the contract was terminated. Out of a total of 671 terminated contracts, 251 contracts were terminated due to non-payment of due installments of the purchase price, 250 contracts were terminated due to non-maintenance of business continuity and non-compliance with the social program, 89 contracts were terminated due to non-fulfillment of investment obligations, 20 contracts were terminated due to disposition of property contrary to the provisions, while in only 5 contracts the buyers unilaterally requested termination (Nikolić 2013, 44).

Companies that are the subject of terminated privatizations are once again becoming a problem that the state needs to solve, which reopens the space for economic populism. Companies that are, or are again under the jurisdiction of the Republic of Serbia, receive significant support through “indirect” subsidies, primarily tolerating non-payment of obligations to the state and public companies. According to Arsić (2012, 78), these companies were making losses that in the period from 2008 to 2010 amounted to around 350 to 400 million EUR a year. To keep them alive and prepare for a new round of privatization, the state tolerates non-payment of tax and other contribution obligations, as well as obligations to public companies. During 2011 alone, debts for unpaid taxes and contributions increased in the gross amount by about 15 billion RSD, i.e. 150 million EUR. The largest part (more than 80%) of accumulated debts to the state refers to companies in the status of restructuring. Also, these companies receive other significant “indirect” subsidies of

about 95 million EUR per year, which include the so-called “soft” loans that are generally not repaid, which is why they are treated as a subsidy. These funds are mainly placed through the Development Fund. They include subsidies from the budget of the Republic (about 35 million EUR per year), which are “special purpose loans” that are generally non-repayable and represent an expenditure for the national budget. The World Bank findings show that during 2013, these companies made a total of 690 million EUR in losses, which is over 2% of GDP, which creates a significant negative spillover effect on large public utility companies, while in the period from 2010 to 2015, about 140 companies that were restructuring cost the Republic of Serbia one billion EUR, in direct and indirect subsidies⁶. Part of that (what goes to companies from failed privatizations) is the unnecessary transaction cost of privatization.

Based on the terminated privatization contracts in Serbia (which are not noticeably larger than in other transition economies), we can conclude that the institutions at the beginning of the transition (when most of the privatization took place) were too weak to guarantee its success in terms of transaction costs to privatization revenues. Based on that, we can conclude that those economists who advocated the gradual reform in transition had the right views.

To other republics of the former SFRY, privatization in Serbia was the fastest, on the one hand, while it recorded the most modest results, on the other hand. The outcome of privatization has, to a large extent, determined the course and development of the entire economy. Although this is certainly a necessary process, we must emphasize that privatization is only a way to establish ownership preconditions for more efficient use of available resources, and by no means an end in itself. Cerović (2012, 161) connects this with the market structure, claiming that change in the ownership form is not enough, in itself, to achieve an efficiency increase. Privatization must be done in a competitive environment. Otherwise, the efficiency effects of this process will be suboptimal.

Here we want to emphasize the danger of ideologizing privatization because this kind of conclusion inevitably carries with it a dose of subjectivism and dogmatism. With this statement, we only follow the position of Cerović (1996, 171) who says that the project of transition and privatization as its integral part should not be

⁶ Until the abolition of the Privatization Agency, these companies were under its jurisdiction. After its termination, 29. 1. 2016., all competencies and obligations, as well as companies, which the Privatization Agency had, were taken over by the Ministry of Economy of the Republic of Serbia. Within this ministry, the Government of the Republic of Serbia has established the Privatization Dispute Management Agency, which deals with representation in court proceedings, arbitrations, administrative bodies and other competent bodies, in which the Privatization Agency participated, and which were initiated before 1. 2. 2016.

connected with the political positions of the left or right simply because it is done about the universal social goal — to achieve the maximum result with the available resources.

Privatization has been highlighted as a *conditio sine qua non* of transition in Serbia. One gets the impression that this process was approached dogmatically, without considering the experiences of other socialist countries. On the one hand, privatization was expected, as it seems, too much, while, on the other hand, the institutional environment within which the privatization process took place was neglected. The creators and bearers of economic reforms in the country at the time neglected the importance of norms and rules that would regulate this process, and on the other hand, they expected that the results and effects of this process would occur “by themselves”, although it was impossible.

Based on the insight into the effects of the legal regulations that have been regulating the privatization process in Serbia for almost a quarter of a century, several common characteristics can be singled out that connect the periods of each of the listed legal solutions (NALED 2014, 9):

- *surplus of employees*: most of the companies that were privatized had a significant surplus of employees. The 2001 Privatization Law shifted this problem to the buyer. Given that there were fewer and fewer customers involved in the social programs for laid-off workers, the state took over solving the problem of redundancies, with two problems that arose in the meantime — first, the reduction in the number of employees took a very long time, because it was based on the principle of voluntariness, and another problem is insufficient funds to finance severance pay from the so-called. “Transition fund”;
- *(over)indebtedness*: expressed “opportune behavior of certain state creditors, who blocked the sale of privatization entities, making it more favorable settlement”. The problem was overcome by the concept of mandatory debt forgiveness for state creditors. In the meantime, after 2005, debts accumulated again, as debt relief related only to the period up to the end of 2004;
- *unresolved property issues*: there was no appropriate legal framework to regulate construction land issues; the restitution issue was also not regulated;
- *soft budget constraint*: in addition to obstructing the privatization of companies by a lack of willingness to write off old claims, state creditors have, very often, at the same time allowing those same companies to borrow more.

These characteristics: excess labor, indebtedness, unresolved property issues, and the soft budget constraint, have represented just the basis for a new series of negative tendencies in the privatization process in Serbia. Compared

to other countries in the region, as well as others, Serbia has lagged far behind in reforms, which is why it was not so attractive for the inflow of foreign capital (Ibid.).

After this brief analysis of privatization in Serbia based on the laws on privatization, we can single out several of their general characteristics:

- there is a noticeable discrepancy between the promises inaugurated in the mentioned legal solutions and the results and effects of privatization after their implementation,
- legal solutions often reflected current political ambitions and interests, and less objective economic opportunities and needs,
- over-emphasized dogmatization and ideologization of privatization have opened the way for strengthening and expanding the functions and scope of the state in or on the occasion of this process, which is contrary to the reform goal of reducing the role of the state in the economy, giving priority to markets and market institutions,
- the discrepancy between legal solutions regarding the privatization model due to the lack of a clear vision and strategy of privatization and its role in stimulating economic growth and development,
- discontinuity of legal solutions as a consequence of pronounced political instability, due to which it is not possible to speak of the existence of an adequate institutional framework for privatization in Serbia.

This legally regulated attitude towards privatization leads to a large number of problems, such as terminated contracts, robbed companies, a large number of unemployed, and the growth of companies in restructuring, which further burdens the already stagnant Serbian economy. The most important thing is that the implementation of privatization, in an environment that can in no way be called well-institutionalized, can, in the long run, jeopardize the construction of a functioning market economy in Serbia.

Privatization, as we can conclude, was managed in the previous period without a clear vision of how to implement it efficiently. The laws were a reflection of political impossibility and unpreparedness as well as partial interests in the previous period of mature “tycoons” with great influence on the new political elite and indecision to implement privatization decisively and to the end. Not only did privatization in Serbia not take place in an adequate institutional environment, but it also significantly contributed to the growth of corruption⁷ and the gray economy, which has already jeopardized the integrity of already existing institutions.

⁷ On the relationship between privatization and corruption, from the aspect of the country's economic development (see Boubakri et al., 2009).

The commitment to an adequate model of privatization in the industrial sector was also very important. Certain analyzes⁸ have shown that large companies privatized through tenders have shown almost twice the productivity of other companies privatized through auctions. It is characteristic of large companies that they showed the best performance in the first two to three years after privatization. In contrast, the dynamics of privatization of small and medium enterprises did not play a crucial role in their productivity. It remained less — more at the same level, regardless of the time of the beginning of privatization.

Industry growth rates in the period from 2001 to 2009 were accompanied by marked instability and high oscillations. The average growth rate of industry was about 0.5% and was well below the growth rate of the economy, which grew by 4.5% on average. The largest growth of the industry in the mentioned period was recorded in 2004 at 7.1%, and the largest decline in 2009 of as much as 12.1%. This average growth rate of the economy and industry has led to the level of GDP in 2009 reaching 79% of that of 1990, and the level of industrial production at 44.6% (Mičić and Zeremski 2011, 52-53).

The share of industry in GDP in 2009 was 15.9%, which compared to 1990 when it was 44.4%, represents a significant decline and indicates the severity of the problems in which the industry finds itself (Mičić and Zeremski 2011, 54). The reduced share of industry in GDP was characteristic in the first years of transition. This development was a consequence of the transitional concept of reforms, which predominantly relied on liberalization and privatization, while the industrial policy was not seen as a significant component of economic policies in transition countries. This concept of reform was dominant until the latest world economic crisis when it became increasingly necessary to establish a new growth model for these economies, in which industrial policy will play a significant role (Cerovic and Nojkovic 2014).

Since 2000, Serbia's industrial policy has focused on the process of privatization and restructuring of the economy, then strengthening the entrepreneurial sector and creating a competitive business environment. On the example of privatization in the processing industry, we will show how this process took place and with what results. In the period from 2002 to 2010, 878 companies were privatized in the manufacturing industry, and the realized sales revenue was 1.5 billion EUR (55% of total privatization revenues) and realized investments in the value of 953 mils. EUR (73% of total investments). However, due to non-compliance with contractual obligations (non-payment of installments, non-maintenance of production continuity,

⁸ For an empirical analysis of privatization and its effects on industry in Serbia (see Nikolić, Kovačević M., 2014.).

non-compliance with investment and social program, disposal of property contrary to the provisions of the purchase agreement), 258 purchase agreements between the Privatization Agency and buyers were annulled (44% of total contract terminations). (Strategy and policy of industrial development of the Republic of Serbia from 2011 to 2020 2011, 18)

Privatization in the industrial sector of the Serbian economy was supposed to contribute to increasing its effectiveness and productivity, its restructuring, and increasing production, employment, and exports. Most of the indicators do not confirm the achievement of the mentioned goals. Such developments in the industry were also contributed by the fact that despite certain positive results and success in privatization, this process put a good part of industrial companies in a difficult position. It has been easily overcome through the privatization of companies of national importance or those that have development effects on the entire industry. In addition to those companies that were successful before privatization, and after which they continue with good results, there are also those that the new owners led to liquidation, as evidenced by the percentage of terminated privatizations conducted from 2007 to 2010, where the total was annulled. 30.7% of contracts on the privatization of companies sold at auctions, 23% by tenders, and 28.7% on the capital market (Mičić and Zeremski 2011, 56-57).

The analysis so far in this part of the paper indicates the fact that the privatization process takes too long, and that its results only partially match expectations. In addition to political and economic instability, it is important to emphasize that the privatization process took place in an unregulated, unstable, and risky institutional environment. It is to be expected that in the first phase — during the 90s it was not possible to talk about the good results of privatization, but in the early 2000s, in the second phase, political preconditions were created for the efficient and successful completion of this process. However, even though some of the expected results have been partially achieved, it is still insufficient, viewed from the aspect of economic efficiency and in comparison with other countries in transition. The concept of privatization was clear, but the reasons for its only partial success can be found in its institutional instability. The poorly institutionalized privatization process has also slowed the transition process.

Populism in its various forms shared the government's ambition to respond to the many challenges of privatization through economic and social policies aimed at protecting the population or some part of it from the negative economic effects of the privatization process. The share of populists in the government largely determined the success of privatization and even overall transitional reforms. The higher their share of government, the more pronounced the negative economic effects of privatization — growing inequality and falling living standards. On the other

hand, declining living standards and growing inequality, as effects of the crisis generated by privatization, represented, as explained in the introductory chapters of the paper, a suitable economic ground for the flourishing of political and economic populism and the arrival or survival of populist political structures in power. In terms of the model of economic growth, growing economic inequality and dissatisfaction led to an increase in the electorate that was against the neoliberal model of economic growth and development, and encouraged those political and economic mechanisms that led to strengthening the state and its bodies in implementing economic policy on the one hand, and market suppression, on the other.

Concluding remarks

The transformations of the political and economic system of Serbia from the period of the introduction of parliamentarism at the end of the 19th century until today, on the one hand, really represent the specificity of one system that can hardly be compared to another that shared similar or the same experiences. On the other hand, we cannot escape the impression that this paper has presented only one part of a truly turbulent history of political, and especially economic populism in Serbia, which makes it clear that authoritarian populism has been a constant in many metamorphoses of this system. The authoritarian dimension of politics, and consequently of the economy, has withstood numerous changes that have accompanied the historical development of the political and economic system of Serbia. As such, it provided fertile ground for the flourishing of political and economic populism. The only thing we can do is ask ourselves, following Dornbusch and Edwards (1990, 275), do economic systems have a “memory” and are the mistakes of past populist regimes learned? Analyzing some basic features of political and economic populism, and their elements in the privatization process in Serbia, we believe that the lack of political will and certain ideological disorientation is still fertile ground for the development of political and economic, or perhaps better — demagogic populism in Serbia.

Political changes at the end of 2000, only in a short initial period, brought much-needed stabilization, carried in part by the wings of euphoria that shook the whole society in that period. Initial political stability also conditioned short-term economic stability. After the decline of euphoria and the beginning of institution building, the first weaknesses of the then political structure appeared — weak coalition government — with still visible and pronounced elements of personality cult, certain authoritarian tendencies within the political parties, as well as certain elements and even personal solutions from the previous political regime. Political activity was reduced to the institutional positioning of political parties in the leading structures of government, for which economic populism was very skillfully used.

We remind here that in the short term, economic populism can achieve good results, but in the long run, its economic effects are devastating.

This attitude towards politics and the economy by the holders of political power pushes society into a state of constant imbalance and insecurity, which ultimately prevents its true institutional transformation on the path to full democratic consolidation. Of course, this type of action is not a consequence of unpredictable historical circumstances, or the consequence of certain political and economic coincidences, which as such found the unprepared holders of political power, but an environment designed by political representatives to create political and economic preconditions to ensure their longest reign. Such a situation implies moving away from basic democratic values, from building stable, high-quality, and long-lasting political and economic institutions. Until a level of political culture is reached in which political participation is understood as a certain democratic obligation of a politically aware individual, and not as proof that you have fulfilled the task of the party you belong to and thus secure your job, and until political power is a service in the service of citizens paid by these same citizens, to realize their public, socially recognized needs, political and economic life in Serbia will continue to have a crisis of political and economic identity, accompanied by numerous social and political divisions, moving away from the democratic political system and, even more problematically, with devastating economic consequences.

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