

Ljubomir Madžar  
Alpha University  
Institute for strategic studies and  
development  
Belgrade

## ECONOMIC DEVELOPMENT MALAISE AS A LEGACY OF THE SOCIALIST PAST

Malaksavanje ekonomskog razvoja kao posledica  
socijalističke prošlosti

### Abstract

The paper builds on previously established research results according to which the alleged superiority of the socialist institutional order is an abominable fallacy. 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 socialist periods are not the true indicators of the old systems' efficiency, because they could not be maintained permanently. The central points of the paper relate to the misperception about the socialist system having been satisfactorily efficient, and to the abysmal consequences of the socialist institutional heritage. The transition crises are the product of the old system, and ascribing them to the market-based system is a grave error. Moreover, the legacies of the old system fatally constrain the workings of the new one and prevent it from realizing its full potential. The systemic change has not only been accompanied by false ideas about comparative efficiency of the alternative arrangements but, more than that, it made it possible and revealed the harmful effects of the socialist past on the reaches and true potentialities of the new decentralized and private property based institutional order.

**Keywords:** *institutions, rhythm of institutional change, reforms, centralism, decentralization, socialism, collectivism, breakdown of the systems, economic development, extensive development, economic efficiency*

### Sažetak

Rad se oslanja na prethodno ustanovljene rezultate istraživanja prema kojima je tobožnja superiornost socijalističkog institucionalnog poretka jedna zapanjujuća zabluda. Glavna poenta u dokazivanju da je prethodni sistem bio u stvari inferioran sastoji se u isticanju njegove neodrživosti. Visoke stope rasta ostvarivane u nekim periodima iz socijalističke prošlosti nisu pravi pokazatelji efikasnosti starog sistema zato što nisu mogle da budu trajno održane. Udarna poenta rada odnosi se na zabludu prema kojoj je socijalistički sistem bio zadovoljavajuće efikasan, a potom i na zastrašujuće posledice socijalističke institucionalne baštine. Tranzicione krize proizvod su starog sistema, a katastrofalna je greška pripisivati ih tržišno zasnovanom sistemu. Štaviše, baština starog sistema pogubno ograničava funkcionisanje novog i onemogućava mu da ostvari svoj pun potencijal. Sistemske promene ne samo da su bile praćene pogrešnim predstavama o komparativnoj efikasnosti alternativnih aranžmana, nego su, više od toga, omogućile i otkrile štetne učinke socijalističke prošlosti na domete i mogućnosti novog decentralizovanog poretka zasnovanog na privatnom vlasništvu.

**Ključne reči:** *institucije, tempo institucionalnih promena, reforme, centralizam, decentralizacija, socijalizam, kolektivizam, sistemski slom, privredni razvoj, ekstenzivni razvoj, ekonomska efikasnost*

## Introduction

Economic development proved to be one of the most seductive areas in the science of economics and one of the most comprehensively and most thoroughly examined fields in the universe of its empirical aspects. Yet, until lately very little, if any, attention has been devoted to its quality. Fascination with the rhythm of growth and with growth rates as its quantitative expression had been such as to overshadow its other, not clearly visible and not fully understood, qualitative aspects. It turned out that among the qualitative features of the development process three following ones stand out: the way it affects the distribution of income and wealth and thus economic inequality in the given society, its impact on natural environment and the climatic change and, particularly, its sustainability. The third among these is certainly the truly crucial and the most important: if the process does not contain dynamic forces guaranteeing its unimpaired continuation, then the temporary rate of growth, achieved within a limited time interval, loses much of its significance and appeal.

In a recently published paper [10] this author examined to some detail the phenomenon of the, typically and unexceptionally, extensive economic development process, the principal failing of which had been its unsustainability. Socialist economies achieved during a limited period – it typically ran for about a quarter century – truly impressive rates of growth, but its extensive character, the paradigmatic feature of the socialist reconstruction implied and predetermined dramatic future deceleration, an outcome which meant stagnation for all practical purposes. A more complete structural analysis showed that the high rate of growth of the “golden age” acted as a basic cause of the future slowdowns, extensive growth meant and conditioned future collapse as the predictable consequence of the spectacular former upswings.

Breakdown of the processes of socialist economic expansion opened up grave analytical problems and gave rise to an overwhelming multitude of misconceptions both within the ranks of the economic profession and, even more, within the general public. When the economy practically breaks down and, by this disaster, forces upon the society a far-reaching institutional change, the question

naturally arises as to whether the catastrophe is endemically foreordained by the old system – the system has outlived itself and the downfall is its unavoidable outcome – or the cataclysm, again foreseeable, comes as a consequence of the systemic change: not a few people, including the high ranking professionals, are teed up to contend that the economic ruin is simply the consequence of the change of the system: replacing a workable system by the new and vastly inferior one produces all these adversities, and the restoration of the old order is the right way out. A very judicious analysis is required to disentangle these multiply interrelated, overrefined and deceptive interconnections. The entire set-up is additionally blurred by a multiplicity of biases: in an intricate heap of facts and changes people are inclined to see what they prefer and, equally likely, to ignore what is not of their liking. Interests regularly interfere with honest efforts to discern the truth. On top of all this comes the structural deformity of the memory: collective memory is just as selective as the individual one and favorable turns become deeply imprinted, pushing the rest in the background.

One thus arrives at a disturbing conclusion: in such a twisted comparative analysis the new institutional order is likely to be marked rather unfavorably and certain nostalgia for the demised system is about to prevail. In this referential evaluation, the new institutional order and the reform as a way of bringing it about are doubly handicapped. First, the breakdown of the old system is flatly ascribed to the new one. Second and equally important, the old system leaves behind itself a wide array of pernicious and detrimental legacies which actually and quite visibly reduce the efficiency of the new institutional arrangements and, by reducing its objectively measured performance, make it look significantly inferior to what its actual potential veritably promises. In other words, the picture reflecting the merits of the two systems is on the way to become drastically distorted on two accounts: the breakdown of the old system is about to be ascribed to the new one and the destructive heritage of the old system will probably put a heavy shadow of the new arrangement by fettering it and preventing it from demonstrating its true potential for quite some time. The formerly cited paper [10] was devoted to unsustainability of the extensive growth as an

offshoot of the socialist development strategy, whereas this paper deals with socialist legacies as a host of constraining pulls and pushes, thrusts and drives, preventing the new system from tapping its true potential.

Belonging to the family of the collectivist authoritarian arrangements, the system developed in a number of varieties in Yugoslavia and inherited in Serbia, possessed the basic features of such arrangements, which means that it fell rather deep into pre-civilizational stages of broadly conceived social development. Decades and centuries of evolutionary, uncertain and haphazard, yet successful and positive, development were simply done away with.

### 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 potentialities, 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 [12, pp. 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 times of Milošević, Đinđić, Koštunica and institutions of the demised socialist society (Tito’s times), this latest option won 45% of the obtained answers, while the next one in the row (Đinđić’s times) won only half of the pro-socialist figures, i.e. 23%! There are plenty of similar surveys, all demonstrating – in the eyes of the citizens – the superiority of socialist times and the then ruling institutions. Indeed, many papers and books have been written on the superiority of the socialism in the memory of the broadest public. However, cited figures are sufficient for this purpose.

A far-reaching conclusion drawn from surveys indicating massive desirability of socialism among such an overwhelming majority of citizens is about the

forbidding magnitude of a political problem deriving therefrom. With so many citizens yearning for socialism, it is next to the impossible to build a political platform which would be sufficiently attractive to the electoral body and, at the same time, secure a sequence of institutional changes leading to the successful modernization of the society. Such sequences, no matter how beneficial they might be from the point of view of the future economic and social development and how solid the reasons for its sustainability are, appear simply as a hard sell to the electoral body. On the other hand, the conviction of the prevailing majority of the voting public firmly tied to the would-be superiority of socialism offers ample space for political manipulation and all kinds of abuse, giving almost insuperable advantage even to those political agents who, ill-informed and inadequately educated, sincerely believe in the socialist ways of steering the society. It takes an extremely improbable Attaturkian political elite, one that will educate the society and simultaneously lead it.

The burden of the socialist legacy seems to depend on the intensity and the sincerity with which socialist institutions and values had been accepted and embraced by the largest masses of the population. It also seems that socialist ways of steering the development at large have let particularly deep roots in Serbia. The reasons for this phenomenon are hard to disentangle, but they probably stem from distant past and the peculiar collective memories; for peoples living under an alien yoke for centuries, collectivist merging together might have been the safest and the most efficient manner of preserving the 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 *the*) most handicapped. Socialist legacies in Serbia are quite visible – high share of the state-owned sector in production, aggregate value added, capital and other macroeconomic aggregates, 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, 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, the 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 recent decades or so, there is only one among ex-socialist countries having 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 of 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 enough 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 account of 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 [13] to disentangle the real achievements of the system and the regularities of its functioning.

The path-breaking work of Nutter produced a lasting shock not only within the profession but also among much broader collection of concerned circles in the society. The limited information and lack of comprehensive and systematic analyses made it impossible to see Soviet realities of the time, and greatly contributed to constructing overoptimistic and unduly favorable 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 the 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 [13, p. 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. growth. Namely, there are a number of noninstitutional factors affecting development which make for higher or lower rate of growth and are unrelated to the economic efficiency and 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 level of development and a number of exogenous factors were close in the two countries, if not exactly equal [13, *passim*, especially pp. 173-177].

Two such evidently unusual findings – the tsarist growth having been more rapid than the Soviet development and higher than the Soviet rate of growth accomplished by the USA in the comparable development stage and similar macroeconomic environment – should have shocked the public, both professional and the broader one, but the myth of Soviet 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 come either easily or quickly accepted, and in fact the most rigorous proofs do not 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 recognizing 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 the Soviet growth had been realized as an extensive growth, which means by massive mobilization of the production factors, through mere and spectacular increasing quantities of these factors rather than through 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. The two development episodes were in fact incomparable, as the Soviet growth, however rapid, was not sustainable and on that account alone had been 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 to the ways and means through which the extensive growth had been realized in the past.

Accelerating development through massive mobilization of the production factors while neglecting technical progress as the only source of sustainable growth means predetermining perilous deceleration of future development, when factors of production, however abundant, simply exhaust their growth potential, while the necessary rhythm of technical progress is not assured to take over the role of the 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 means that it will 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 out of necessity dramatically decelerate growth in the future – opportunistic development policies deplete the fund of unrepeatable options and thus achieve marked effects for a limited time at the expense of the imminent future slowdowns. The time interdependency of the growth rates makes it impossible to judge the efficiency of whatever development policies by weighing the simultaneously realized results, registered at the times to which such policies directly apply. The crucially important, but unfortunately regularly missing component in judging such efficiency is the dynamic potential which the observed policies bestow upon the future.

### **Socialist heritage revisited: The scars in the collective memory**

Because of the inevitable objective exposition to the risk and all kinds of uncertainty – starting a new business

is neck breaking in and by itself – entrepreneurship cannot flourish successfully and develop smoothly if it is additionally exposed to the institutional and policy risks. The basic, indispensable condition for tolerable development of a market economy is stable, predictable and within the limits of the possible rule-based economic policy, so that at least institutional and economic policy hazards are minimized if not entirely removed. The top economists of the world have persuasively been explaining the actual weakening of the 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 introduction of rules in carrying out of most policies, so that economic agents can within reasonable limits predict the policy moves as responses to various exogenous events [11], [2], [4]. Let it be added that only a stable, algorithmically clean economic policy can provide valuable service in coordinating flows of decisions and resources in a decentralized economy. It takes no particular effort to grasp what a terrible and terrifying blow socialist revolutions have had, with all those confiscations and jailings, dealt to entrepreneurship with memories of such perilous shocks extending over decades.

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 equivalent to wiping somehow out books and articles produced during a good part of the lifetime by 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-actualization, an evidence of having created something of value in their productive life. As owning various things is undeniably an important aspect of 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 institutionalized 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.

We are again confronted with a formidable legacy of socialist order, with an element which originates in the socialist past but generates its deleterious impacts on the post-socialist present. Concrete actualizations 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 could 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 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 the developed west European countries – primarily in the then existing West Germany, France and Austria and, somewhat less, in the 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 1970s with the flood of euro-dollars all over Europe and with easy and rich options for raising credits, which the country helped itself to in numerous ways and plentiful quantities. The foreign debt crisis developed after the 1980s, and only then the supplementary resources inflow thinned. This phenomenon was studied and intensely discussed on several occasions [7] and [8].

However, despite the volatility of the inflows and reduction of some of them through time, in a long period lasting some three decades, the population adjusted its consuming standards to the levels much above what would be 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 exclusively 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 taking negative values in quite a few encompassed years. These were calculated as percentage shares in GDP of the gross investment minus foreign trade deficit. Had depreciation charges been deducted, a horrifying picture would have been obtained. Begović [1, pp. 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 of 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).

Elaborating further the institutional realities of Serbia, an extremely important element of its systemic peculiarities deserves mentioning. As Pejovich [15, pp. 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 the elected managers, had extensive management rights but not the 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 with the organization, which meant that they had extraordinarily strong incentives to raise as much credit as they could get a hold of – with 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, no wonder that the Yugoslav economy stumbled from one financial crisis into another and never reached the state of tolerable financial health. Pejovich deserves much credit indeed for illuminating such a shocking flaw in the construction of the system, the flaw which escaped to many highly reputed analysts.

### **The backlog of regional adversities: The untoward consequences of collectivist heritage**

The principal proposition argued in this paper is about belated effects of the demised socialist institutional order: the fall in the rate of growth of the leading macroeconomic aggregates, having become strikingly visible with the institutional turnabout towards market and the associated regulating mechanisms, should not and cannot properly be ascribed to the 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 could be

discerned here. The first one derives from unsustainability of the old system: the growth trends would be broken and the rhythm of development would surely plummet even without the widely advertised institutional shift. As a matter of fact, the spectacular institutional change is not the cause of the flattening of economic trends; the causal relation runs the other way around.

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 more exists!

The belated adverse effects of the old system on the functioning and performance of the new system can also be traced down through peculiar traits of economic and other policies. In the further, deepened round of analysis these policy-generated adversities can again be attributed to the systemic mechanisms. Namely, the socialist government lavishly granted an unimaginably broad range of privileges to equally broad segments of population. Most of these privileges – various pensions, supplementary payments, financial support to the war veterans... – had heavy future financial implications. The rights had been granted during socialist times and the implied financial obligations had to be serviced for decades to come. The new system has inherited large junks of obligations thus generated during the old system. Quite naturally, that weighed heavily on the productive and growth potential of the new system. Such disconnect between those who reap political benefits by granting various rights and the subsequent layers of agents who have to service implications implied by these rights is a typical constructive failure of the political systems. It is well known that administration in the USA is to a

significant extent awarded by granting rights which impose heavy burden on the state and federal budgets in the long future periods. A textbook type of externality is evident here: one set of reaps benefits by emitting rights while a different set of players bears accompanying financial burden; some drink while others pay. One could argue that this destructive opportunism of bribing people with rights to be in the main services is ultimately determined systemically, more precisely by the undemocratic political system in which authorities attempted to compensate lacking democratic rights by corrupting people with such financial handouts.

The systems, like people, can suffer a tragic end due to unlucky series of deadly 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. First, it was unsustainable, the proof of which is its historic debacle. Second, 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 immixing of any ingredients which themselves are not elements of the same pure creed. Socialism cannot be, at least not in sufficient degree, pragmatically modified while still staying socialism.

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 had been allowed to touch what had been considered as essential to socialism. The reforms have therefore all over been partial and superficial; they were generating disturbances and complications of futile adjustments without solving anything. With fundamental defining components remaining untouchable, the systems stayed in essence unchanged, which prevented them to gradually and pragmatically evolve into some 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 the 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 development process for an uncertain but certainly long future.

As for Yugoslavia, early signs of the predicaments of the extensive growth appeared quite soon. As early as 1960 the steeply rising trend of the GSP growth, exhibiting a rate of growth of some 8%, broke unexpectedly with the rate of growth plunging to below 6%. Authorities mistook this break as an ephemeral, stochastic deviation and continued planning the rate of growth of industrial production at the earlier high levels [6, p. 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* [7] with detailed analysis of various – aggregate and sectoral – components of currently observed movements and with diagnoses of the underlying causes as they saw them.

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 in 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 of incredible courage. A long series of his writings, with some of them

assembled in (1984) and some others re-edited in (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, and changes in development trends, on the other hand. Extraordinary emphasis was placed on the insufficient use of the then available expertise, with Horvat claiming that relying on science could overcome all, however serious and lasting problems.

Yet, again with the benefits of hindsight, one could persuasively conclude that he had been overestimating the availability of knowledge and underestimating 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 knowledge, useful policies can be conducted and considerable successes obtained.

In fact, many successful policies had been realized on the basis of concepts and insights which later proved to be outright mistaken. As Popper frequently emphasized, 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 mobilizing 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.

Deficient or lacking expertise is not the only potential determinant of policy failures. The interplay of interests, which are prevalingly particularistic, makes its own

contribution. It is well known that policy makers have their own preference functions rarely coinciding with, no matter how postulated, interests of the society at large; the “political arithmetic” diverges widely from economic calculation aimed at hitting *social interests*, whatever the italicized word might mean [9, p. 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 particularistically profitable and what is 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 had not been ripe for fuller understanding of ultimate unsustainability of the then implemented growth. Such analyses shed sharp light on the structural roots of inefficiency of the collectivist systems and the accompanying legacies which impede development long after these systems had been discarded.

## Conclusion

The collectivist systems of socialist economies proved their fundamental irrationality by their general breakdowns. The false impression, and equally erroneous interpretation, is created that those breakdowns are allegedly generated by the new system, by the misplaced substitution of the inefficient for the efficient. The paper is devoted to an energetic refutation of this misconception. The old system leaves at least three categories of damages behind itself. First, the losses caused by the catastrophic demise of the socialist systems have pushed those economies backward and are equivalent to lost decades of normal development. Second, the impression is generated that the ruin be the consequence of the new market-based system, which drastically and almost irreparably reduced their credibility. The proposition about economic ruin having been created

by the new, reformed system would quite clearly run counter generally accepted and irreproachably proven scientific truths [16, pp. 57-70, 96-98]. Third, there are concrete, real and tangible legacies which hamper normal functioning of the new system and prevent it from realizing its full potential. In order to make it possible to carry through the radical reforms, misunderstandings and even dead straight absurdities about efficiency and growth potential of the two opposed systems will have to be done and over with; and, indeed, for good. There is no doubt that such a clarification of perception and prejudices is an unavoidable necessary condition for creation of the political terms of reference for a radical, irreversible reform.

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### Ljubomir Madžar

Graduated at the Faculty of Economics, University of Belgrade in 1961, became MA in 1964 at Williams College Mass., USA, and PhD at the Faculty of Economics, University of Belgrade in 1968. His basic orientation refers to the field of economic growth, institutional aspects of development and the problems of governance, macroeconomics and stabilization, etc. He has published ten books and over 400 articles in professional journals. He dealt with the privatization and formation of permanent institutions based on market economy. He was member of the Council of Economic Advisers in the Government of A. Marković, the Chief Editor of "Economic Thought" 1987-11, and a member of the Government of M. Panić 1992-93. He was full professor at the Faculty of Economics University of Belgrade since 1982, then rector and professor of the University "Braca Karic" – today "Alpha University", where he is still engaged.