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THE PARADOX OF FAILED GROWTH IN THE POST-SOCIALIST ECONOMIES – With Reference to Traits Characteristic of Serbia –

Paradoks izostalog rasta u postsocijalističkim privredama
– Sa osvrtom na osobenosti karakteristične za Srbiju –

Abstract

The paradox to which this paper is devoted consists in the largely unexpected fact that the rates of economic growth achieved in the post-socialist economies, following their privatization and transition to a market based institutional framework, appeared to be significantly lower than the rates achieved during the most successful episodes of the socialist era. In the general and even in the large segments of the professional public the impression is created that the demised collectivist institutional arrangement of the socialist past is more efficient and, particularly, dynamically more propulsive than the market economy of the contemporary post-socialist institutional order. This misperception is characterized as damaging and growth constraining because it distorts the collective evaluation and electoral preferences making it extremely difficult and occasionally impossible to create a development promoting, propulsive institutional system compatible with the foundations of a market economy. The delusion of the superior socialist development performance is dispelled by pointing to the unsustainability of the temporarily fast development under the socialist system and its inherent convergence towards long run economic stagnation. This is the context in which the notorious extensive socialist development is examined as a dynamic process whose rhythm of growth converges to the rate of expansion of the slowest growing production factor. This property of the development trajectory is revealed as the reason on account of which the final result of extensive development is the long run economic stagnation at the best and even less favorable dynamic scenarios in more likely macroeconomic constellations.

Keywords: *sustainability of development, extensive development, technological progress, institutional system, the inefficiency of the collectivist arrangements, collective evaluation of growth experience, electoral preferences*

Sažetak

Paradoks kome je posvećen ovaj rad sastoji se u poglavito neočekivenoj činjenici da su se stope privrednog rasta ostvarene u postsocijalističkim privredama nakon njihove privatizacije i prelaska na tržišno zasnovan privredni poredak pokazale znatno nižim od stopa realizovanih tokom najuspešnijih epizoda iz socijalističkog vremena. U najširoj javnosti ali i u opsežnim segmentima profesionalnog sveta stvoren je utisak da je napušteni kolektivistički aranžman iz naše socijalističke prošlosti efikasniji i, osobito, dinamički propulzivniji nego tržišna privreda svojstvena savremenom postsocijalističkom institucionalnom poretku. Ova pogrešna percepcija okarakterisana je kao štetna i ograničavajuća na planu privrednog razvoja zato što deformiše kolektivna vrednovanja i elektoralne preferencije, silno otežavajući a povremeno i doslovno onemogućavajući stvaranje institucionalnog sistema koji bi bio propulzivan i pogodan sa stanovišta podsticanja privredne ekspanzije, a koji bi u isti mah bio kompatibilan sa osnovama tržišne privrede. Zabluda o tobožnjoj superiornosti razvojnog učinka iz vremena socijalizma razvejana je tako što je pokazana neodrživost brzog ali kratkovekog razvoja u okviru i uz regulativno delovanje socijalističkog sistema čije je inherentno svojstvo konvergencija ka drugoročnoj privrednoj stagnaciji. Ovo je kontekst u kome je ispitan naširoko poznati ekstenzivni socijalistički razvoj kao process čiji tempo rasta konvergira ka stopi uvećavanja najsporije rastućeg privrednog činioca. Ovo svojstvo razvojne putanje označeno je kao razlog zbog koga je konačni rezultat ekstenzivnog razvoja dugoročna privredna stagnacija u najboljem slučaju ali čak i znatno nepovoljniji dinamički scenariji u drugom, nesumnjivo verovatnijim makroekonomskim konstelacijama.

Ključne reči: *održivost razvoja, ekstenzivni razvoj, tehnički progres, institucionalni sistem, neefikasnost kolektivističkih aranžmana, kolektivna evaluacija razvojnog iskustva, izborne preferencije*

Introduction

It is not just a matter of sophisticated economic theory but, by now, a widely accepted article of faith of the informed general public that the market economy is undoubtedly more efficient and more productive than the economy based on hierarchically originated commands and administrative regulations. Automatic coordination of economic decisions deeply grounded on properly structured motivation impulses and smoothly exploiting an unsurpassable mass of appropriate information is clearly superior to the direction of economic processes by the immediate orders and endeavors to allocate resources directly, by estimating the incomprehensibly large quantity of vastly differentiated social needs.

Yet, recent experiences arising from post-socialist structural shifts and observed tendencies seem to contradict, at least in some constellations and during periods of limited duration, this generally held belief. And, indeed, the belief deeply rooted in scientific considerations and corresponding, multiply corroborating empirical findings. The times of socialist development with particularly marked industrialization drives contain the periods of extraordinarily fast economic growth, impressive expansion of employment, extremely high savings and investment rates and regular yearly increase in incomes which predictably produced equally beneficial increase in the standard of living. Post-socialist economies plummeted to the incomparably lower rates of growth of the economy, displayed disturbingly high rates of unemployment, drastically reduced rates of investment and, particularly, savings and sunk into the murky waters of uncomfortably high foreign indebtedness. Some vital economic activities, such as housing construction, whose cardinal and seemingly universal importance for the welfare of the populace is plainly evident, were by far more developed during socialist times than they are now; the housing area delivered yearly in some periods of socialist construction was, in *per capita* terms, depending on years selected for comparison, between three and seven times bigger than after the demise of socialism. Numerous public opinion surveys show almost in one voice the conviction of the broad strata of the population that socialist times had

been incomparably superior to the post-socialist situation and a distinct nostalgia for socialist arrangements comes visibly to the fore (e.g. [6]).

In a recently completed work, prepared as background paper for the inaugural address on the occasion of the election for the corresponding member of the Slovene Academy of Sciences and Arts, this author offered a comprehensive critique of the forcibly imposed, democratically nonlegitimized collectivist systems, with extensive argumentation of the statement of their fundamental and ultimate inefficiency. The information inadequacy of such systems is strongly pointed out, both in the sense of such systems not being capable of producing required volume and, particularly, kind and quality of information and in the sense of overcentralized and politically directed systems not being able to collect and to purposefully use the scant information made available to the decision making loci. Motivation is equally vigorously emphasized. Coercion can never extract as much devotion to the task and as much effort as properly structured motivation which stirs the action of free men, the agents who are induced to working for their own benefit. The inability of the collectivist systems to generate technological and other innovations and the incapability of such systemic creations to learn sufficiently fast is also pointed out. They are not only weak in creating the new technological solutions but are also sluggish in utilizing the existing technology long used in other, more developed economies. And with low, occasionally bent down to zero, rate of technical progress, economic development at reasonably high rates is unsustainable.

For economic development to unfold regularly and at a sufficiently high rate the essential prerequisite is civic, particularly economic, freedom reliably protected by the rule of law. The absence of the rule of law is the gravest weakness of the collectivist systems based on coercion and reducing a large part of communication among the economic agents to issuing the orders and passing the reports on their execution. Without rule of law the system is burdened with terrifying uncertainty and converted into rule of men over men. In such systems no one is safe and all are threatened, including those at the very top of the social pyramid. Such a lawless set-up predictably

generates massive purges (*csistkas*) as a predictable manner in which the power holders protect their own body and limb. Purges are a regular, structurally determined and foreseeable phenomenon in such systems and what kind of more drastic deformity of an institutional arrangement can be imagined than such systemic annihilation of the precious human material. In the expanded version of the paper a number of notable, highly placed personalities, having succumbed tragically to the purges, are analyzed. Such systems have massive compulsion, rather than free cooperation based on self-interest, as their *modus operandi*. Millions of prosperous and even poor peasants, *kulaks* and others had been executed because they defended their properties and resisted the collectivization. Whole nations have been transferred from their homelands to distant, inhospitable Siberian areas. It is evident than *not all* among the expelled ethnic entity could be responsible for anything; it then follows that innocent people are subject to drastic punishments and that the very idea of justice is done away with. If and when institutional systems are at such unbelievable odds with justice, individuals don't get what they deserve and – taking the other side of the coin – they are exposed to severe punishments which they don't deserve. With such an extreme dissociation of act and consequences, including the separation of efforts and rewards, no system could under any circumstances come out as efficient.

There is also a direct ruin of the social morals. Without the rule of law providing a reliable protection of individual rights and liberties, so that power holders can arbitrarily handle and treat any individual, including forcing him into all kinds of ethically impermissible acts, such as arbitrary accusation of neighbors and acquaintances, denunciations and extortion of false admissions, sticking to ethical principles becomes *very expensive in terms of sufferings and even survival*, and, no wonder, the decline of morals, the ruin of the very ethical base of the society inevitably follows. Children denouncing parents – the case of famous Pavel Morozov and the praising of such parental treasons by such celebrities as Gorky – become a steady and ordinary part of the ethical landscape of the society [5, p. 367]. Interdependencies between the morals of a society and its economic potential call for and have

given rise to thousands of books and papers, but here it will suffice to state that with such eroded morals, whereby the erosion is functionally determined by the structure of institutional order and, in particular, by the political set-up of the society – any chance for sustainable long run development vanishes for good.

The Quandaries of mobilization and allocation of resources

Crude force and compulsion are undoubtedly instrumental in the mobilization of resources – large masses of people can be herded and relocated at will and investment can be expanded at the expense of the total consumption within the very wide limits – but such huge quantities of resources on which political directorate quite easily lays its hand are inexorably wasted to a large extent and the resulting distortion of allocation eliminates whatever effects might have been achieved by mobilization itself. In cruelly reigned collectivist systems much of what was drained out by forcible mobilization had been simply dissipated by reckless and highly irrational allocation. Yet, mobilization does remain as a very important and truly desirable function of the economic system: resources which are not mobilized and remain idle do not command any economic value. Only mobilized resources can be allocated, allocation involves mobilization as its essential, absolutely conditioning prerequisite. Self-management and other institutional peculiarities have to some extent differentiated the Yugoslav economic system in relation to the systems of other socialist countries, but that system remained a member of the family and shared with the rest some fundamental characteristics: the lack of democratic legitimacy, intensive and steady governmental intervention, installation of administrative regulations over wide areas on which markets would have performed much more efficiently and the excessive use of coercion including the forceful confiscation of properties and the well known manner of its compulsory introduction at the very beginning of what later came to be called *industrialization of the country and socialist construction*. In thorough understanding of Yugoslav institutional realities much can be learned from studying

of other socialist systems, including their inclination toward centralism and even central planning.

With systems which produce small or negligible quantities of innovations, i.e. which learn slowly or don't learn at all, technical progress practically does not arise as a determinant of development and the drivers of growth are practically reduced to raw and crude physical amassing of the factors of production – various categories of capital and labor. The important fact is that economic progress can in these ways – by mobilizing and putting to productive use large quantities of production factors and thus by consuming immense quantum of inputs – achieve an impressive, literarily fascinating acceleration of growth and produce unprecedentedly big rates of growth, but that growth is *not sustainable*. The basic proposition of the theory of economic growth has it that the sustainable rate of growth, i.e. achievable in the long run, if depending only on the mobilized quantities of the production factors and deprived of the precious component of the technical progress, is *equal to the rate of growth of the slowest expanding factor*. Growth depending on the increasing quantities of these factors, stripped off of the beneficial impact of technological modernization, is traditionally called *extensive growth*. The tragedy of extensive growth consists in the sad fact that the economy is doomed to grow at the rhythm of the slowest growing factor in the long run. The best scenario in the extensive growth story is the one in which population, and by implication the labor force, appears to be the slowest growing factor, in which case the long run stagnation is the mirror of the future of an economy. Other scenarios are clearly even less favorable – they are articulated by the long run decline of the income *per capita*. Despite the impressive development spurts over periods of limited duration, extensive growth is an abysmally bad option as it leads into secular stagnation in the most favorable case.

Costs in terms of unbelievable numbers of human lives are the next huge component of cost that has not been and never will be accounted for. Some numbers are given in the previous subsection. There are many sources containing the estimates of the lost lives and the data contained in these sources differ widely. But whatever estimates are taken, they are horrifying. Along with all

wide differences they display a common characteristic: they are very, very large and almost stupefying. The need of providing illustrative substantiation bears adding a few facts in this context, too. Cohen [1, pp. 323-4] – notices that only in the period 1936-1939 7-8 million people were arrested, out of which 3 million were shot or perished in other ways. The Party itself suffered annihilating blows. Out of 2.8 million of Party members in 1934 more than 1 million were arrested of which 2/3 were executed. Out of 1,966 delegates of the XVII Party congress in 1934 1,108 were arrested with majority of them having been executed. Out of 139 members and candidates of the Central Committee of the Party 110 were executed or forced to commit suicide in 1934. Cohen [1, p. 324] states that the Bolshevik Party had been exterminated and replaced with a new, completely different party composed of obedient performers. Solzhenitsyn has estimated the *total* number of people who suffered Stalinist terror to 60 million [2, p. 477].

Among the conspicuously neglected and, indeed, poorly understood aspects of the appalling irrationality of the system defined on the highest level – it could be called *macro social irrationality* – the way in which wars had been conducted by the then existing Soviet Union. The military strategy of the supreme leadership was characterized by a very peculiar attitude towards the risk. As opposed to Western Allies the Soviet leaders and commanders have indulged into utterly extreme operations recklessly sacrificing hundreds of thousands lives of the military. The cautious attitude of the Western allies, disinclined to launch ambitious and dangerous operations and hesitating to open the second front on the West had for long been the source of serious tensions between the Soviets and the Western Allies [2, pp. 274-5]. The results are well known. The victorious USSR lost in the World War II about twice as many military lives as Hitler's Germany lost on all fronts. Another characteristic illustration of the attitude of the leadership towards human lives is the outcome of the notorious Soviet-Finish War: the victorious Red Army lost about 200,000 soldiers against 100,000 on the Finish side. These remarks should be understood in the strictly pragmatic, cost-efficiency sense; they don't touch upon the ethical side of the stance taken regarding the degree

of respect and the readiness to protect human lives. The present efficiency aspect of the issue consists simply in the horrifying cost which the authoritarian collectivist system was ready to undergo to achieve some of its objectives. With such high costs one is tempted to wonder about the worth and the justifiability of the objectives themselves, even if they appear to be reached.

The key problem in popular, and to some extent even professional, evaluation of alternative institutional orders consists in an extraordinarily skewed selectivity in observing the performance of competitive arrangements. Socialist system is under various guises and in correspondingly differentiated alternatives existed in Serbia for some half-a-century. That rather big interval of time has exhibited a multitude of development performances, starting with the glorious period 1952-1960, when the country headed the list of the fastest growing economies (Ivan Stojanović aptly called this time interval *belle époque*, and ending with the dramatic early eighties, when the country found herself at the verge of the bankruptcy and fell in a way under the guardianship of the IMF. The periods of rapid economic expansion are most deeply carved in the collective memory, the less glorious periods are largely forgotten and the socialist period as a whole comes out in the collective remembering as extraordinarily successful. The global picture is biased and unrealistic. Two important features are simply disregarded. *Firstly*, as the theory firmly establishes, the growth realized in the *belle époque*, how ever rapid and vigorous, is unsustainable; its most successful stages contain the seeds of subsequent retardation and determinants of serious crises. *Secondly*, clear signs of unsustainability have shown up during the socialist development itself: growth indicators plummeted, macroeconomic equilibria turned out seriously disrupted and pressures for major institutional changes escalated. *Thirdly*, socialist institutional machinery driving and steering growth not only demonstrated signs of an incurable illness, breaking dramatically development trends toward stagnation, but, even more disturbingly left legacies for the future. It aggravated the growth conditions in the future post-socialist period. *Mirabile dictu*, much of what came out as unsatisfactory development performance in the post-socialist market economy *is ascribable not*

to the institutional arrangements of that time, but to the regulating mechanisms of the past socialist times, to the socialist systemic creations which no more exist!

The key to understanding the hardly expected tumble of the rhythm of development following the radical institutional change consisting in the transition to some sort of a market economy is the *unsustainability of the socialist strategy of extensive growth*. It is to that delicate subject that we now turn. While the ephemerality of the extensive growth is in this section analyzed in the broad and general terms, the next section is devoted to a more detailed and analytically positioned examination of this extraordinarily significant phenomenon, a dynamic manifestation which – as far as economic development goes – determined destiny of socialist societal order. Extensive growth has, of course, been *extensively* analyzed in the literature, but one cannot escape feeling that the degree and the amount of its analysis have not reached the level of justified commensurability with its doomsday significance.

The mechanics of extensive growth and the inevitability of deceleration

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

The key element in this verbal interpretation of corresponding formulae is the rate of growth of capital. It is defined as a ratio of net investment (= accumulation), i.e. national savings and the capital itself. As national saving are a multiple of the rate of savings and national income, the rate of growth of capital, in the model based

on deducting the depreciation and dealing with net quantities, is obtained by multiplying the rate of savings with the national income and dividing this multiple by the value of capital.

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

The model is transparently generalized by introducing additional factors of production, additional to the capital and labor which conventionally figure in most models of economic development. In further working out of these models economists have introduced additional factors such as land, a summary variable for the versatile collection of natural resources. In such a generalized setting little is changed, but one insight comes forth as decisive: in the model of growth based exclusively on the expansion of the factors of production the long run, *steady state rate of growth of the national income comes out equal to the slowest growing production factor*. Taking roughly

per capita income as a sort of indicator of social welfare and a general goal of development policy, the best long run (*steady state*) this generalized model can deliver is *stagnation of per capita income*. If the slowest growing factor is not population-cum-labor force, but any other factor, the steady state rate of growth will be equal to the rate of such slowest growing factor, that rate will be less than the rate of population growth and one arrives at a macroeconomic set-up of long run or *secular regression*. The model turns into an analytical picture of long run decline, with permanent deterioration as the unavoidable destiny of the macroeconomic system (defined as the set of interconnected parts making up the economy as a whole).

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

When the rate of technical progress enters as an additive term into the formula for the rate of national income growth – the remaining part of the formula consisting of the weighted average of the rates of growth of labor and capital, with the weights equal to the elasticities of the national income with respect to those production factors – the possibility of the steady sustainable increase of income

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

Going back to the extensive growth, its tragedy consists in the absence of technical progress due to the lack of economic freedom(s). With over centralized economy and its predominant if not exclusive administrative guidance, economic units do not have maneuvering space for independent deciding, the enormous mass of agents are excluded from creative experimenting and accompanying generating of new technological solutions, the system is doomed in the sense of having to rely only on mobilization of productive factors as a source of growth and at the same time doomed to a development deceleration in a somewhat longer run. Moreover, such a system generates forbidding constraints on future development, even when it unfolds within completely reformed institutional order. The public at large, and even a large part of the profession, ascribes development deceleration to this new, market oriented set of institutions, thus blocking the change and making it politically difficult to continue developing the long awaited truly decentralized order with its yet unrealized development potential. Mistaken diagnoses and erroneous analyses are not the only and probably not the most important determinant of the mistaken

policies but they certainly contribute a lot to them, more indirectly than directly. A detailed analysis of the limitations of the socialist extensive growth – spelled out by the models belonging to different classes, those with fixed coefficients and the ones with possibilities of substitution between the production factors – is provided by Madžar [4, pp. 320-335].

Additional aspects and further consequences of socialist growth

The false perception of unusually rapid extensive growth realized by and within the socialist institutional order can arise from the very methodology of computing the rates of growth and could be qualified as a statistical artifact. Socialist development was typically characterized by deep and far going structural changes. Exceedingly deep structural changes imply a comparable variability of the sectoral rates of growth. Rapidly growing sectors have relatively small initial size with relatively high relative prices and high terminal values with relative prices considerably reduced. As the weights in calculating the growth rates for the economy as a whole are determined by high initial prices, the high sectoral rates get very high weights. For the same reason the slow growing sector obtain low weights. The result is an overvalued growth rate for the global aggregate relating to the entire economy.

At the end of the so determined period statistical series undergo a procedure of updating and the system of weights markedly changes. The sectors which have previously been growing at the above average rates become thus relatively abundant and command the lower relative prices while a new set of sectors coming out as proportionately scarce command high prices. The same phenomenon repeats itself with the new set of rapidly growing and large weights obtaining sectors and again there emerges a very high rate of growth for the entire economy. The successive overvaluations of the global, economy-wide rates of growth mutually build themselves upon each other with the curious result that very high rates are registered for the economy as a whole and for the entire encompassed period, with significant interim changes but not necessarily with sizable changes in the

real, say physical aggregates of the system. To illustrate this curious phenomenon, Madžar [4, pp. 293-4] has constructed a curious example of a two-period system which, having started from an assumed real term sectoral configuration, after the second period comes *back to the same configuration* – with nothing, after all, having been changed – and yet with very high rates of growth registered in the observed interim.

It must not be forgotten that the strategy of hasty growth, which has been so typical in socialist systems and which is so amenable to outings into the areas in which growth can relatively easy be accelerated, on that account alone accumulates numerous development damaging bottlenecks which eventually have to be dealt with but at disproportionately high social cost. Before the system starts threatening to break up under the pressure of accumulated bottlenecks, urgent and – because of urgency – hard – to coordinate corrective measures have to be undertaken. Considerable waste of resources is obviously implied. Nutter [7], [8] singles out excessive accumulation of inventories as an important component of this heavy social cost. As these inventories tend to be permanently tied to the frequently disturbed and policy shocks exposed production processes, it follows that a part of the statistically recorded high growth rates gets eaten up in the periods of above average changes in the development rhythm.

More generally, a high inventory-turnover ratio is a reliable indicator of the overall inefficiency of an economy. This is the place to recall once again the findings of international comparative analysis which indicate distinctly high inventory-output ratios in the socialist economies with generally known and ill-famed intolerably low standards of consumer service [3, pp. 347-362]. Shifting back and forth among various collections of permanently and pressingly growth constraining bottlenecks, with exorbitant accumulation of inventories on this and on many other accounts, creates chaotic constellations of mismatches and the, resulting deeply ingrained mess is a most unwelcome heritage hampering development for a long time after the demise of the socialist order. Here is again one of the reasons of insufficiently rapid growth of contemporary market economies which is not

determined by any of their structural characteristics but has inextricable roots in the preceding collectivist order.

A much discussed and overly important phenomenon, which is both a mechanism and an aspect of extensive growth, is the, again ill-famed, mechanism of price scissors through which socialist development was to a large extent financed and which had served as a coercion based arrangement of brutal exploitation. First of all, coercion meant that the authorities had been able to fix arbitrarily price relations within very wide limits. These relations had been fixed brutally in the most exploitative way. Huge amounts of income were ultimately transferred from, anyway underdeveloped and in the largest part literally backward, rural agriculture to the socialist sector to finance ambitiously blueprinted and not happily steered industrialization.

This is a one-shot device of development strategy *par excellence*. The process of extracting income from the privately owned peasant agriculture has to come to an end because the socialist nonagricultural sector grows much more rapidly than the rural agricultural economy; the ratio between the two segments becomes more and more skewed in favor of nonagricultural socialist segment of the economy. Once that sector becomes too large in relation to agriculture, it obviously becomes simply impossible for the bulky, overgrown sector to live and develop at the expense of the relatively small, excessively diminished sector. The sheer proportion of the sizes of the two sectors eliminates this exploitative way of nourishing the state run and collectively organized part of the economy by drawing resources from an economic segment which, relatively speaking, tends towards insignificance. It should be added that, in as much as the economy acquired certain market characteristics, the exploitation of the village by the city located, urban turned and collectively organized part of the economy was to a recognizable degree facilitated by the marked differences of the market structures: highly competitive sector of the rural agriculture was confronted with the much more monopolized sector of the nonagricultural activities.

Any developing economy, even the one growing through implementation of extensive growth strategies, becomes more complex and more challenging regarding

coordination and dynamic steering. A physically enlarged economy and the one growing, among other, on that account, needs more and more decisions to be tolerably managed and to function with bearable efficiency. Some sort of decentralization becomes imperative. Haphazard and inconsistent decentralization within politically led collectivist systems creates the problems of its own and contributes to the chaos which, as a part of socialist legacy, again acts in the post-socialist development as a constraining factor. More than that, the epochal turn to market system following the demise of the socialist order creates an intensive need for new systems of coordination and steering and such fundamentally different systems cannot be created off-hand. The long time and unavoidably high risk with uncertainty could and should be seen as the reasons for the institutional lacunae which persist until the new regulating arrangements are eventually built up. Such lacunae act as an additional, independent source of growth deceleration in the post-socialist period.

Conclusion

Understanding the phenomenon of the seemingly efficient and apparently impressive socialist development is of vital importance. The reason of this importance is widely accepted and deeply rooted *false* perception of this extraordinary spectacle. Its unprecedented rhythm in some sub-periods of the socialist development has left almost indelible imprints in and on collective memory of some ex-communist societies and correspondingly the unjustified critical stance toward post-socialist market economies and accompanying democratized pluralistic political systems. That clearly has far-reaching political implications as it strongly influences collective evaluation of the alternative institutional systems and biases electoral preferences towards collectivist orders of the past. Such evaluation and the resulting political preferences are the root cause of a serious set of political constraints in the global strategic undertaking of building a genuine democratic social order and corresponding full-fledged market economy. Dispelling the erroneous perceptions of the demised socialist institutional set-up and eliminating the mirage of the allegedly superior

collectivist arrangement is a matter of the highest social priority.

This paper is devoted to the wiping out of the myth of the ostensibly superior efficiency and accompanying developmental potential of the collectivist institutional arrangements. The extraordinarily fast growth in some limited time intervals of the socialist era is understandably acknowledged, but it is shown that such impressive upswing of social economic expansion are *not sustainable* and, moreover, that the clear signs of the limited duration of the socialist development bonanza have appeared even before the breakup of that collectivist order. Cutting the long story short, *socialist extensive development is not sustainable*. The very high growth rates realized during *limited* periods of socialist development are not representative and are even *less typical* of the dynamic potential of any socialist economy. A markedly lower rate of growth of a post-socialist economy could be interpreted as a sign of superior efficiency in comparison with much higher rates achieved in limited time spans during the socialist epoch. The reason is evident: as a matter of principle, the former are sustainable and the temporarily attractive rates, however high may not be taken as indicative of the growth potential of the socialist economies. Despite the seeming and erroneously interpreted evidence to the contrary, the market economies are not only more efficient in the conventional sense of the (static) allocation of resources but also in the more important respect of achieving sufficiently fast development which is maintainable in the long run.

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