

IMPERATIVE OF ACCEPTING THE NEW DEVELOPMENT ECONOMIC STRATEGY IN MONTENEGRO

The article explains the causes of failed economic policies and appropriate development strategies in the 20-year period of post-socialist transition. It points to a failed implementation of vulgarized neoliberal economic prescriptions and their institutional-monistic character, which were predominantly oriented towards the interests of narrow circle of privileged groups and individuals. It emphasizes the need for the adoption and consistent application of proven exemplary models of developed Western and other economies, based on plurality of economic institutions. It starts from the hypothesis that long-term reproduction of economic and social crisis and its actuality and depth imperatively require significant modification of existing economic development strategy and acceptance of civilization achievements, dominated by the implementation of real institutional change, which should lead to a pluralistic institutional development.

Key words: *Economics institutions, institutional pluralism, institutional monism, neoliberalism, economic development.*

1. Introduction

Two decades duration, depth and intensity of the crisis, with all the accompanying painful events, were not a sufficient warning to holders of (neoliberal) economic policy in the Montenegro and neighboring states in transition, that something is wrong and that the 'development' model ultimately needs to be changed. Policy makers are not dirigists any more but neoliberals. In theoretical debates with their lobbyists they often accuse the dirigists for the failures of economy and reform and for the existing crisis, which is paradoxical. Some institutional monists (the authorities) blame the other (former) institutional monists, who are constantly seeing them as scapegoats. Simultaneously, it is quasi forgotten that large number of economists (in vain) stand for institutional pluralism that dominates in all developed economies.

In Montenegro, neighboring countries and some transition countries, these solutions are implemented for two decades quite uncritically and unquestioningly. And according to the method of double standards. Present is only rhetoric about the market, individual initiative, private property, economic freedom and entrepreneurship, while economic realities of the market are dominated by highly deformed structures and reduced economic institutions, which are not characterized by large membership as elementary precondition of any reform.

Actuality of the crisis imperatively demands application of exemplary modified models, which characterize all developed economies. All these models are based on pluralism of economic institutions. None of these development strategies implement the solutions of vulgarized neo-liberalism. Naturally, in terms of the global economic crisis, it must be borne in mind that even the application of these exemplary models is no longer a guarantee for initiation of economic growth and establishment of sustainable economic development. Selection of successful economic development strategy in modern conditions became very difficult and risky.

Postulation for realization of major transition processes were radical changes in economic conditions and forms, property rights, regulation mechanisms, political and legislative regime. Conditions for this were and still are realistic, radical and pluralist-oriented institutional changes, which should have led to economic stabilization, growth and development. Institutionalization is a general framework, a common denominator and postulation for all other changes. Inefficiency of many post-socialist economies in transition is largely explained by institutional monism, or by failure and the vacuum of institutional monism (Draskovic 2006, page 52).

2. Failure causes of current economic development strategy

It is considered that the partial approach in implementation of institutional changes and their interest determination are key causes of their failure in most transition countries, as well as the general failure of current strategy of economic development (Draskovic, V. Draskovic, M., 2009). Underdevelopment of individual economic institutions (state regulation, market regulation and regulation of ownership) and their monistic actions prevented institutional competition as a key promoter of economic development. The lack of a consistent development strategy, rather its formalism, was an additional braking factor of economic and social development. Dominance of neo-liberal economic policy as institutional monism under state regulation, and the neo-liberal conception of the market, favored the creation of various forms of pseudo-institutional relationships (paternalism, monopoly, lobbying, social pathology, gray economy, rent oriented behavior, dominance of politics over economics, etc.).

Real institutional changes are being ignored, neglected and avoided. Rather than occurring synchronously, in parallel (simultaneously) and connected, considering that successful and efficient economic institutions must be complementary, institutional changes were fictitious, formal and superficial. Forced isolated development of any economic institution at the expense of another, always leads those economic reforms to a dead end. Dominance of institutional monism (regulating the market primarily) has caused major problems and enormous consequences of transition. There was no institutional control, which includes broad social interests and objective regulators. Political control dominated (again!), this time in multi-party system! It was based on narrow interests of lobbying and subjective behavior regulators dictated by nomenclature in power and their lobbyists.

Specific forms of control of economic trends were strengthened by nomenclature-lobbyist clans, originating from government circles and their lobbyists. They established an organized and extensive network of informal interest-oriented institutes, and gradually subordinated most areas of life. Some privileged «players» and their «connections» dominated the economic and other social institutions as the rules of the game.

Let's remember the warnings of D. North,

«Our economic institutions, that shape directly our world, derive from political institutions. Economists do not want to think that they are dependent on political science but they are. As well as recognizing the formal rules like constitutions, laws, rules and regulations, we are interested in who makes the rules and for whom. So, fundamental underlying issue is to see how rules of the game are structured with respect to whose choices matter, how choices get aggregated, and how in turn that produces the way in which a politics makes the rules that in turn shape the economy. The politics makes and puts in place the economic rules of the game. These essentially concern property rights: not only property rights in terms of rules about how property is used, alienated and owned, but also property rights in terms of the effectiveness of enforcing contracts and agreements in laws. What we have, therefore, is a structure that humans have evolved – remember it is still all in our heads – a political structure that in turn puts in place an economic structure that shapes how that society works».

All that deformed and reduced the economic reality, general institutional structure and social values and criteria. It created a large gap between formally established

economic institutions and economic behavior in practice, which was far from regular standards. Anti-development model was formed, and completely contrary to the recommendations of the Nobel laureate D. North (1981, p 32) in terms of «*developing such institutional structure, especially the structure of property rights, through which maximizing of income and a high degree of freedom is achieved*».

Vulgarized institutional (neo-liberal) monism has reduced complete economic behavior, from conducting the economic activity, through market competing, to motivation and employment. Under transition conditions it has degraded mass individuality, economic freedom, private property and entrepreneurship. How and why? By pushing the creation of inappropriate and unproductive quasi-economic institutions, which had a destructive effect on valuation of economic resources. It formed and reproduced institutional imitation and improvisation, which generated a long list of brake mechanisms (V. Draskovic, 2002, pp. 114-6). It has favored the creation of many monopolies with market and other characteristics, which decisively influenced the majority of the negative things that have happened to post-socialist transition economies and their economic operators. It has reduced the competition to primitive market structures.

Quasi-institutional violence (political, economic, and party) of organized minority (that can do what they want, where they want, whenever they want and how they want) over disorganized majority of people has verified the non-market appropriation of enormous proportions. Therefore, some authors equate neo-liberalism with neo-Darwinism (Kulic, 2000, p. 867) or neo-imperialism.

3. Exemplary development strategies

Institutional pluralism operates in the most liberal economic systems, in various combinations that correspond to specifics of a particular state and its economy. Therefore, in modern developed economies institutional pluralism rules and represents foundation of true individualism. There is not a single developed economy in which it has been liberalized what have been happening in an overly-liberal manner of our narrow and broad region in transition. Why? It is because of strict, consistent and positive effects of institutional pluralism. What developed country and economy permits the activity of such informal institutions related to the ruling «elite» (state, party, business, entrepreneur), which conducts the protectionism of their own people (V. Draskovic's term) and predatory privatization (an expression of Russian economic literature that appeared beginning of the 1990s)?

Existence of the rule of law, economic functions of the state and pluralism of economic institutions in developed economies are necessary to restrict differently motivated individual behavior. Need to protect legal system, contracts and property rights are not disputed, which does not eliminate or reduce manifestations of expression of economic individualism. On the contrary, it expands the horizons of its manifestations. Existence of modern, advanced, flexible and efficient economic institutions in a *pluralistic complex* is not an indicator of economic non-freedom, chaos and destruction, but an essential condition for developing economic freedom, democracy, economic activity, stable economic relations and sustainable economic development. It is a formula for economic and social development in developed economic systems.

It has been proven in developed economies that institutional synergism (pluralism) is the only real, possible and proven requirement and the priority of economic development, based on real (not rhetorical) economic freedoms, protected property rights and contracts, entrepreneurship and a healthy market competition. It provides individualism of all (and not the few and privileged), mass of economic freedoms, private property rights and effective entrepreneurs, i.e. massive and institutionalized individuality, property, state and market. Because the goal of economic institutions

is to serve all individuals in society (not just the privileged ones). Individually and collectively are inseparable components of pluralistic institutional arrangements and the overall institutional order of modern developed economies.

Democratic institutions nominally (formally) exist in countries in transition. They often serve as a cover (vent) for expression and realization of interests of distributional coalitions, consisting of individual members of old nomenclature, newly invented businessmen, oligarchy and mafia structures. This new «elite» have no interest to strengthen the institutional power of the state and democratic procedures, but to preserve the monopoly positions of non-economic privileges and various pseudo-market structures. They are using the range of elements of social pathology, from lobbying, log-rolling with the ruling nomenclature and asymmetric information through occupying strategic positions, to the use of various forms of power and networks of informal groups. That way, their annuity-oriented behavior is being reproduced.

We will not refer to many affirmative positions by the respective authors in terms of institutional pluralism. Let's recall that the performance of national economies is measured by aggregate indicator that measures the level of national competitiveness, and is called the Global Competitiveness Index (GCI). It contains an average of several components, which express certain aspects of the complex category of competition. All components are grouped into 12 basic parameters of competition, among which the Institutions occupy the first position (Schwab, 2011, p. 9). On the list of 142 countries Switzerland (5.74) and Singapore (5.63) have the highest index, the USA is at the fifth place (5.43), the Czech Republic in the 38th place (4.52), Hungary in the 48th place (4.36), Slovenia at the 58th place (4.30), Montenegro on the 60th place (4.27) and Ukraine at the 82nd place (4.00). These positions roughly correspond to the institutional development of selectively chosen countries.

It should be mentioned that Chang (2005) points out the importance of making a clear distinction between the forms and functions of institutions. Citing the compilation of major «governance» indexes (or indexes of institutional quality) by Kaufmann et al. (1999, 2002, 2003), he noted that indexes often mix up variables that capture the differences in the forms of institutions (e.g., democracy, independent judiciary, absence of state ownership) and functions they perform (e.g., rule of law, respect for private property, enforceability of contracts, maintenance of price stability, the restraint on corruption). He also argues that the orthodox literature is overly fixated with particular forms of institutions, as shown in so-called «global standard institutions» (GSIs) argument.

4. Contours of new strategy for economic development of Montenegro

Starting with twenty years of reproducing the economic and social crisis, which manifests itself in numerous and severe strains, imbalances, deficiencies and problems, academic circles in Montenegro directed their sharp criticism on current economic policy. It is still rhetorically and practically based on neo-liberal premises, which have in praxis proved to be vulgarized and distant from the known theoretical models. Paradoxically, the official economic policy continued to pursue neo-liberalism, which has produced disastrous consequences, not only in Montenegro, but also in many post-socialist countries in the region and more broadly, in all countries of the world where it is applied.

Numerous problems were noted in current development strategy. They are being generated within insufficiently developed economic institutions. Inefficient bureaucracy of the state dominates in this, as well as the underdeveloped market infrastructure, lack of modern financial instruments and institutions (social and economic), corruption that threatens and distorts the functioning of the market, expressed paternalism and increasing demands for protectionism, improper and non-productive use of privatization revenue, the dominance of predatory privatization and so on.

All of these elements contain a common element – undeveloped and inefficient economic institutions. Therefore, imperative need for strengthening them is being imposed so that they may have a positive effect on increasing the competitiveness of the Montenegrin economy and freedom from the dictate of the party and new «elite». This primarily refers to the strengthening of state regulation in the area of macroeconomic management, as well as the streamlining the exchange of ownership rights and their effective protection. The affirmation of market competition implies as well, just like removing business barriers, development of all forms of markets, improving corporate governance, finding a quality strategic partner on market basis, removing the brake socio-pathological mechanism and greater acceptance of the economy of knowledge. All this should result in increasing living standards and eliminating the expressed social inequalities.

A particularly important element of the new development strategy should be forcing general knowledge («knowledge society») and the role of economics in it («knowledge economy»). It is urgent to increase the level of all forms of knowledge in Montenegro, as a condition for the success of the new national development strategy. Investments in scientific research and education must be significantly increased. Economic development in developed countries is directly linked to knowledge and technology, which indicates the dominant importance of intellectual capital.

Montenegro, as a small country must be oriented to the development of partnerships between local and foreign companies, due to lack of capital, the remaining economic infrastructure and high unemployment. A huge amount of privatized capital through the implementation of mentioned privatization was converted into property and other inactive forms which for now do not indicate serious investments in economic infrastructure and / or job creation. The global economic crisis has significantly slowed down direct foreign investments. Therefore, the national development strategy of Montenegro has to rely on the activation of all internal resources and unused reserves, among which are evident comparative advantages, as well as the need to carry out real institutional change.

5. Conclusion

Civilization socio-economic development strategies have affirmed institutional diversity (pluralism) and synergism (priority of whole in relation to the partiality) as their dominant characteristics, which directly contradict all forms of absolutism (monism). Due to the erroneously defined priorities (institutional vulgarized monism rather than institutional pluralism) the transition in most countries was unsuccessful and incomplete.

Vulgarized and interest-oriented neo-liberal economic development strategy has been pushing institutional monism. This is a new and absolutization and dogma about the supposedly greater efficiency of economic institutions of «immaculate» and «uncontrolled» market regulation and the «almighty» private property. This development model in praxis of transition countries and economy has been forced through the propaganda of pluralism that is large membership (private property, economic freedom, entrepreneurship, etc.). However, in practice it led to their negation and contradiction.

New post-socialist «elite» did not have and still has no interest in strengthening the institutional power of the state, because it in many ways contradicts their interests and quickly acquired wealth. Transition has shown that efficiency of institutions is connected with moral, intellectual and other forms of integrity of those who lead these institutions. Seen from this perspective, it seems that economic institutions are designed to favor those who have authority and power, which allows easily acquired wealth through various non-market ways.

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У статті пояснюються причини невдалих економічних політик та стратегій привласнюючого розвитку протягом 20-річного періоду постсоціалістичної трансформації. Це вказує на невдалу реалізацію вульгарних неоліберальних економічних рекомендацій та їх інституціонально-моністичний характер, які переважно були зорієнтовані на інтереси вузького кола привілейованих груп та індивідів. Це підкреслює потребу у прийнятті та послідовній реалізації належним чином доведених моделей розвинутих західних та інших економік, базованих на плюралізмі економічних інститутів. Висувається гіпотеза, що довготривале відтворення економічної та суспільної кризи, її реальність та глибина наполегливо потребують значної модифікації існуючої стратегії економічного розвитку та прийняття досягнень цивілізації, домінування запровадження реальних інституційних змін, що має привести до плюралістичного інституційного розвитку.

Ключові слова: економічні інститути, інституційний плюралізм, інституційний монізм, неолібералізм, економічний розвиток.

В статье объяснены причины неудачных экономических политик и стратегий присваивающего развития в течение 20-летнего периода постсоциалистической трансформации. Это указывает на неудачную реализацию вульгарных неоліберальных экономических рекомендаций и их институционально-монистический характер, которые преимущественно были сориентированы на интересы узкого круга привилегированных групп и индивидуумов. Это подчеркивает потребности в принятии и последовательной реализации должным образом доказанных моделей развитых западных и других экономик, основанных на плюрализме экономических институтов. Выдвигается гипотеза, что долгосрочное воспроизводство экономического и общественного кризиса, его реальность и глубина настоятельно требуют значительной модификации существующей стратегии экономического развития и принятия достижений цивилизации, доминиру-

вания внедрения реальных институциональных изменений, что должно привести к плюралистическому институциональному развитию.

Ключевые слова: экономические институты, институциональный плюрализм, институциональный монизм, неолиберализм, экономическое развитие.

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