

UNSUSTAINABILITY OF CLASSIC STATE AND ECONOMICS IN MODERN CONDITIONS

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Abstract. *Modern society and economy operate in complex and uncertain business conditions. It can be seen simply by observing phenomena in the natural and social order. Turbulence exhibit negative impacts on the environment i.e. create instability, which often turns into a crisis with devastating effects. On the other hand, time as space is an increasingly scarce resource and as such has become a limiting factor for commissions or omissions. Today, time is not measured in seconds, as it was in the past, even tens and hundredths, but nanoseconds. It should be added that mistrust over the past few years has reached unprecedented proportions. According to research in the United States, approximately half of managers do not trust their leaders. The results of Golin/Harris survey conducted in the United States in 2002 were just as dismal: 69% of respondents agreed with the statement "I simply do not know who to believe." That same year, the University of Chicago surveyed 800 Americans and found that more than four-fifths have "a little" or "almost no" confidence in the people who run large corporations. However, confidence in the abstract corporate leaders is different from the beliefs of its director, and some companies and directors are generally considered reliable, but the general trend is worrying.*

To the above condition largely contributed ineffective or non-functional state that has not changed radically in recent decades. This conclusion applies both for highly developed and developing countries and for countries in transition. In a situation where everything is changing and when it is capable of continuing the changes, the classical state becomes a limiting factor for growth and business development and improving quality of life.

Related to the above is still a great dominance of classical economics, classical management, and organization in modern business. It turns out that the connection between classical states and classical economics determines the quality of policy decisions made at the state level. For the success of each state and science, such as economics, it is dangerous to apply outdated concepts, or trying to solve contemporary economic and other problems using outdated approaches and concepts.

The work aims to emphasize the need for abandoning classical and outdated concepts, techniques, and technologies in the management of state and economy and the necessity of introducing new, or the approaches and techniques that match the spirit of the times. The paper will point out the necessities in Serbia, as a country in transition.

Keywords: *new concepts, classic country, classical economics*

1. THE END OF CLASSIC STATE

Classical state is a result of the traditional concept of the use of traditional or obsolete development, management, and organizational concepts. It turns out that the traditional concepts of the past gave satisfactory results and contribution in achieving the macro objectives, but that has not been able to respond to increasingly complex and uncertain economic conditions.

Basic or one of the fundamental problems of classical country and its institutions is the pace of the changes, or slow response to problems that occur in different spheres. Like the church, military, and other traditional institutions, it slowly changes the ways of

functioning and philosophy of work. In such circumstances, it is not able to respond to new challenges that arise in the contemporary world, and especially to do it quickly and efficiently. This statement applies particularly to the economic sphere. This brings us to the paradox that the natural and social order constantly and dramatically is changing, and that the institution i.e. the state that should respond to that turbulence is not affected. It turns out that the change of the law of life and one that is in place, usually trailing, as is evident when it comes to state institutions.

The state as an organized institution exists in every society, or national community organization regardless of the type, size, development land, etc. The way the state operates to the great satisfaction of the citizens, can be taken as one of the most important criteria for evaluating the level of organization of a community. It is the most important to realize that the state is similar to other business organizations. Like other organizations it has its inputs, transformation processes and outputs, which are called "public services", which means that economic and social dimensions are final in every organization, even when it comes to the state. In other words, each country must seek to realize greater effect with the smallest number of economic victims realize, or a public service that will be of higher quality and with a lower cost. Costly public services (high taxes and other fees) are a sign of poorly organized and expensive state. On the other hand, substandard living standards, high unemployment, high budget deficits, high indebtedness and so on, are the parameters that indicate that the state does not work its job very good and that trust must be withheld to government agencies, primarily the Government.

Accordingly, state is successful if manages to work in a transparent way to ensure a favorable business environment for development of business's and other activities and people who manage to provide a satisfactory standard of living.⁷⁷ Such understanding of the state implies that it has its customers, or customers, as well as any other organization and must ensure that they are satisfied that, even in the case of monopoly services, or services that can provide only the state and its bodies, organizations, etc.

It turns out that the process of governing state is complex, not only because of the large property it has, but also primarily because of the complex relationships that exist between different social, economic and other sectors. The state is in certain areas, or in education, health, cultural, artistic, and other institutions, is the largest employer. In the public sector the largest number of people is employed, for which the state should provide sufficient financial resources and other benefits for the timely settlement of their obligations. Because of that, the economy of a state largely depends on effective state and its institutions.

State institutions are dispersed by the depth and breadth of the state; decisions are made in many places, creating a risk of conflict between the general policies of the state and policies of the local government. Stated warns us that governance requires the application of modern management concepts of organizational, technology and philosophy of business to integrate and mobilize existing natural, and artificial resources for successful achievement of defined goals, with economic victims, as possible smaller.

⁷⁷ J. Backingem and T. Ward: „What's next: The experts guide“, Harper Collins books, 2008. pp. 36.

Researches and analysis of the structure and functioning of the philosophy of some countries show that management in the public sector is far behind the management of business, i.e. for-profit organizations. This applies to countries that are declared as a highly developed, particularly for countries in transition or development. In them there developed a legal-political, economic and other institutions, and often represent the limiting factor in increasing business, but also a social and political, cultural and other performance. There are at least two problems, namely: (1) that the management of high-income countries is still dominated by classical management concept, which are business organizations in the modern economy have left because they could not reject a particular success. On the other hand, in countries in transition there is amateur management, which has been so far behind the management of developed countries. In other words, if one takes into account modern management, and management that operates on the principles of the three E's i.e. economics, ethics and ecology, we can say that today there is no competent public management at the global level.

This becomes worrisome, because this situation is negatively affecting other subjects of the state or the citizens, businesses and other institutions that are outside of state jurisdiction. It also changed the place and role of government in modern business. Instead of the traditional approach in which the state gave an example and a message regarding the proposed citizenship behavior and organization, it now needs to work on the principles of business and trying to "copy" their experiences in achieving their goals. This is a natural conclusion, because it shows that the business i.e. the management of transnational companies is now more successful than public management, because it lives with the changes and on the principle that "everything is changing, and that only changes are permanent."

1.1 SOME OF THE CHARACTERISTICS OF THE TRANSITION COUNTRIES

Even people in the distant past have concluded that the more experienced and skilled people are more successful in hunting groups, then young and inexperienced hunters. Strumlin, Russian scientist has found that the work of highly qualified workers is worth about three times more than of unskilled workers. Thus, between competence and business success correlation at high level exist, and because of that, every organization is trying to provide more competent and experienced people to perform certain tasks.

Previous statement applies to the management of public administration, which has scarce limited resources, with which must to achieve better results. Citizens, even in countries with fragile democracy, often look for statements regarding the way of using public money. In that context, special institutions were established, such as public auditor, the agency to proceed with privatization, energy conservation, etc.

States i.e. governments often send their members or ministers to education or the acquisition of managerial knowledge and organizational skills, so they could effectively manage their ministries or departments. Training and education are often the responsibility of each employee during the year, while starting from the assumption that the acquisition of competencies and knowledge are not a private affair of individuals but of their duties. In this way, business performance increases both of the state and business organizations.

States of developing countries works on ever “harder” the canons of the past. Rather, it is an instrument in the hands of the ruling class, which tends to hold citizenship in subordination as long as is possible, than it is in their function. Examples of some African and Middle Eastern developing countries confirm it, as the regimes in these countries stay for more decades. It is clear that long reign, often blunt the edge of reforms and destroys the sense of the people, especially when it comes to customer satisfaction as measured by economic freedom.

Countries in transition also struggle to realize their missions with the state property, as the dominant form. This also applies to those countries that have most of the privatized state property. Practice shows that countries in transition, much greater attention paid to privatization, but management, thinking that privatization by itself will change the current situation and turn the negative trends in the progress and development. However, any form of ownership can be successful, if it is in the hands of competent management. This confirms the worldwide practice, because every day a large number of private enterprises disappear. At the same time, many companies in the state, or mixed ownership shows a high level of performance. One can therefore conclude that no form of ownership contains the postulates of success, but a competent and professional management is responsible for the success. Therefore, it was wiser to first ensure the professionalization of management, and then privatize the company and give them the responsibility of competent management. Wrong sequence of steps, led to privatization of companies, competent management does not control them, and a large number is closed and out of order.

To make the above happen, it is necessary to achieve consensus in countries in transition, between the relevant political and other structures of the place and importance of management science and profession in enhancing corporate performance. This step is the hardest, since the introduction of professionalism in the management of political structures in transition countries would have lost that level of power that now have, first of all interference with the conduct of the business of politics, especially when it comes to public companies or large business systems. Eliminating of so-called “party management” or “party officials” i.e. state commissioner, would create conditions for the introduction of modern management, or professionals who would be able to successfully manage resources on a national and global level and provide satisfying level of competition.

1.2. THE NEED FOR EDUCATION OF PROFESIONAL PUBLIC MANAGEMENT OF TRANSITION COUNTRIES

It has already been stated that between the competence and success there is a high level of correlation. These data point to the conclusion that it is inevitable that countries in transition countries have competent management who can manage different sectors, institutions, and public sector organizations. This is the fastest, and the safest way to raise success of the economies in transition.

Competence in the management of the public sector has traditionally been acquired at higher education institutions involved in the organization, management, and business in general and to the programs that relate to the public sector. However, it should be noted that the current education management in the U.S. is based on classical or approaches

that are based on the past. This is demonstrated by J.M. Podolny statement, "As long as American business schools do not make a complete change, society will be convinced that the work of MBA serves their similar interest."⁷⁸

However, professionalization of management can be improved by training and education of individuals from different parts of the public sector, who have the technical, commercial, financial, or other professional knowledge and experience in leadership positions. This training would particularly benefit young people who have worked in certain functional areas, or levels, and who prefer the managerial jobs.

The fact is that in countries in transition there is no a sufficient number of business schools, where future managers are educated. It is estimated that these countries in the next period will have the most need for top managers and managers of finance, personnel, and foreign trade and development i.e. innovation. Here, special emphasis should be given to the opening of high schools in which so-called operational managers, and technicians, supervisors, supervisors, managers, etc. could be educated.

Nevertheless, the introduction of these elements in a conceptual sense would remove more than half of the problems that exist in corporate governance of countries in transition. Professionalism, i.e. the selection of highly professionalized managers to the top position in business systems, creates conditions that other executives and all employees are competent and capable of successfully performing the tasks. On the other hand, professionals will need to work under the rules of the profession and it would not allow political amateurs to interfere in the daily management of the organization. This need is even more relevant if one bears in mind the tendency of professional managers are increasingly assuming the role of management boards in terms of setting, and achieving corporate goals.

Further improvement of the management should concentrate on raising competencies through continuing education, as it does in developed countries. This education can be organized within the organization, or using external co-operation with educational centers, educational institutions, etc. For this purpose, it is necessary to plan budget and financial resources in the organization. This constant learning and knowledge updating at all levels of management becomes an obligation, not a personal matter of individuals. Who does not fulfill this obligation, must be sanctioned, and must be eliminated from the organization.

Establishment of business infrastructure, professional or specialized agencies and companies, consulting and engineering organizations would also contribute to the professionalism, bringing it to the level of super-professionalization. These organizations could contribute to management performance in their own way, while it is necessary to point to fact that "other people's knowledge is cheaper" and that management does not have to know everything, but just to know what he knows and where it can find the proper knowledge. The practice of developed countries strategic management consultants have proved very useful, which are used in making policy decisions.

For professionalism and super-professionalization management of the transition countries, it would be useful to establish a code of ethics managerial profession. This code exists in other professions such as lawyers, doctors, etc. but that code would have

⁷⁸ J.M. Podolny: *The Buck Stops at Business School*, HBR, June 2009. P.61

the same effect on all segments of the economy and society. Ethical code would prevent immorality that goes on in the profession of managers in countries in transition, which produces much larger problems than other professions. In other words, professionalism strengthened with ethical and socially responsible behavior of managers, creating conditions for securing the satisfactory corporate performance. With the development and improvement of management in the transition economies would come up to intensify the process of entrepreneurship development, which contributes to more rapid concentration and employment of staff in the newly established economic and other institutions. Entrepreneurial economy is the basis for its massive and intensive development of innovation in all areas of economy and society. The impact of entrepreneurship can best be seen in developed countries, where they introduce new techniques and technologies through which it provides lower operating costs, and thus higher profitability, as a primary goal of both, business and other organizations.

From the above it can be concluded that raising the competence of management in countries in transition, one of the most effective way to increase national and corporate performance. Competent management seeks to have competent employees, but the business environment too, such as suppliers, partners (subcontractors), as well as other stakeholders.

1.3. FUTURE OF CLASSICAL STATE

Although it is difficult to predict the future by many political, economic and other issues, however, with high probability it can be predicted what will happen to the classical state, or with the state as a political-legal institution, but also with its traditional infrastructure, such as parties and policy party leaders, governments, division of the work, etc. The forecasts are heading towards the fact that deep structured states disappear and will instead develop entrepreneurial organizations and the state.⁷⁹

It is quite certain that classic countries will disappear and that on its "ruins" are going to be created a new, redesigned institution with a different philosophy, concepts, and technologies of work. This applies to the developed countries in transition and developing countries. The difference will be only in life span of classical states in certain countries. Of course, in developing countries and countries in transition, the classical states will have longer life cycle. Leadership in transforming the classic into a modern state will have a highly developed country, while the underdeveloped countries in transition will be the followers of what they leaders do.

This new government seems to go from nation state, to large networks. To this change world famous theorist John Naisbitt has warned by the statement "today's power is in large networks, rather than big countries." Large networks are a set of many individuals, who are networked with each other and thus, a new design that is completely different from the classical operation. The biggest change is that the networks no central office and central administration. To have the network to be effective, everyone must feel like it was in the center. Then the network as a group of related people powerful and much stronger than the association in the nation state, where there is a high level of hierarchical division and eventually force, as the main instrument by which the state serves the individual organization.

⁷⁹ E. Collins and M. Devanna, *The new portable MBA*, John Wiley and sons, Canada, pp. 355-361.

On the other side, political life and so-called intermediate democracies in the newly created technological, organizational, and other changes losing its ground and create conditions for direct democracy. It must be borne in mind that a representative democracy in the U.S. occurred 220 years ago and that it was a big step forward in promoting people's right to choose their own leaders to represent them in certain bodies, organizations, etc. It was a time in which there was no telephone, computers and other devices widely used. It was natural that in such situation, some political groups are sending their representatives to present and promote their programs and then return to their headquarters to report on the event.

This type or representative democracy is no longer necessary, because according to J. Naisbitt, "We are already on-line and in real time, and we now know as much as everyone else." In this context, governments as well as of traditional institutions lose their traditional base and the position they had for centuries.

Political leaders in modern concepts will disappear, causing "new leaders" to appear with different profiles and needs, in relation to the intermediary democracy leaders. The new political leader will be like the leader in the field of business. Instead of the traditional political leader, who was the model for the creation of leaders in other fields, will now be the new leader that will have to look up on leaders in the field of business. This is the real hope and a future that has already started in many developed countries, where the leaders of individual ministries act as presidents of companies, or some of its parts. It turns out that businesses today have a great impact on all sectors of our, or the life of the organization.

From the above we can conclude that the end of classic country is inevitable and its place will take a new country with a completely different infrastructure, i.e. that the intermediary democracy will disappear and that the real world of information technology to establish direct, or indirect democracy, which by usually better to carry greater potential to achieve overall social performance. This will at the same time be a modern and future needs.

2. THE NECESSITY OF ABANDONING THE CONCEPT OF CLASSICAL ECONOMICS

Closely related to competencies of management is the issue of economic science and its applications. It turns out that classical and industrial economy is largely based on the established view and the detailed mechanisms of measuring and evaluating the national economy, and corporate performance. These principles operate in the industrial economy for decades, which is a special value for its continuity. However, it turns out that what ensures the survival and long life to the economic and any other disciplines, and organizations, is living with a permanent change. If we look at the history of any science for the past few decades, we will see that their portfolio constantly changing, so they survived. This applies to economics, organization, management, finance, human resources, marketing, etc. However, these sciences are now something completely different, since a few decades. They were constantly being changed, in accordance with the changes that have taken place in the market. If they were changing they would suffered the fate of dinosaurs. Therefore, change is inevitable in order to maintain continuity and improve performance. If continuity is measured then the change, as a natural law, is a precondition of its survival. In other words, if a person, organization, or

sciences do not change, they die. Because of that, the competition in the future means maintaining continuity through constantly creating new sources of profit.”⁸⁰

However, practice shows that changes in social, political, and economic sphere were not accompanied by adequate changes in these sciences, which led to a gap of science and the theory and practice. The following shall be indicated several major prejudices, myths and misconceptions, which should shed light on scientific and verifiable, in order not to create room for subjective interpretation and manipulation of scientific information. The above concepts and misconceptions have become current in Serbia, a country in transition, because there are differences in approach by politicians and economists, managers, etc.

Regardless of the diversity of approaches, the special attention will be paid to following five myths that are present in classical economics and that is difficult to lower or eliminate, though the practice greatly denied.

These are:

- The myth of the market, as the “invisible hand”
- The myth of rational behavior of consumers-customers,
- The myth of the information, as the most important resource,
- The myth of the places and roles of foreign reserves in the macroeconomics of a country,
- The myth that increased personal consumption can stabilize the economy,
- The myth of the IMF capacities in dealing with macroeconomic problems,
- The myth of the optimal level of indebtedness

Listed errors at first glance are separate and independent. A deeper analysis shows that all myths, more or less are the result of classic economy and standard of management that accept them, even though they were largely denied by the practice numerous times, with enormous economic, social and other consequences, which requires something beyond explanation, i.e. rationale.

2.1. THE MYTH OF THE MARKET AS “THE INVISIBLE HAND”

It is estimated that after the economic crisis in 2009, nothing will be as it was before. Certainly, there is room to re-examine many long-standing beliefs and concepts. This primarily refers to the market, which was believed to represent the so-called “invisible hand” and mechanism for automatically setting up economic activities and flows. In September 2008, the global economic downturn has led the world in a very difficult situation. Allen Greenspan, former chairman of the U.S. Federal Reserve, was named the best banker that has ever existed, has admitted to Congress that he was shocked that the market does not operate in accordance with their life expectancies.⁸¹ The fact is that we are paying a heavy price because of the unrealistic and unreasonable belief in the power of the “invisible hand”. The economic crisis in 2009 has shown different effects on markets of developed and developing countries. “Emerging markets, after the end of the crisis, will have a greater share of the world product, compared to the previous period”, finds Antoine van Agmael, which operated by the Investment Company

⁸⁰ CK Prahalad: „Strategies for Growth“, Rethinking Competition, Boston, 2006.

⁸¹ Dan Ariely, “The end of rational economic”, Harvard business Review, July- August 2009. pp.

Emerging Markets Management. According to this expert, this market will end after the crisis would be more attractive for investment, compared to the previous period.

Market, as the "invisible hand" can automatically regulate the economic mainstream. It is an artificial construct and has no elements of self-organization. The market has neither wisdom nor instinct, which is characteristic of self-organized creatures, especially humans and animals, i.e. plants. Even mentioned self-organized living beings, must be running, which means that their success will depend on the capacity of governing. So the market cannot be automatically handle economic and social life, but must be guided by the same must be managed.

If the market does not have the expected power, the question is what the alternative is. It is certain that the alternative is not a greater influence of the state and state interventionism. Analyses show that the greater involvement of governments in corporate business is one of the reasons for the economic crisis of 2009. It turns out that the policy makers introduced stimulation packages, trying to raise the collapsed company, thinking that this is the way to provide reforms. They made the decisions as managers in the past did. Previous crises have led to a change of government, as is the case today. In this regard, the government would have to work on two tracks; they are the first to prepare the new modes of legal regulation and to recognize the importance of the importance of the public sector. Growing deficits have led to economic collapse in many countries. Government will be under great pressure as they were forced to reduce the cost of providing social services. Therefore, in the future the partnership between public and private sector will be an important challenge.⁸²

In the above, it should be noted that the crisis itself, or disruption of the market a natural phenomenon, i.e. an element of self-regulation. It leads to the imbalance that leads to an imbalance of supply and demand, but at the same time imbalance leads to a new equilibrium. This means that there is no progress without crisis, nor there is crisis without progress and that this is the eternal natural law. The analysis shows that after each crisis, transformation came and better rules were established, in both social and economic relations. At the same time, every crisis has the danger, admittedly, but chances too, which is less known and what is completely ignored.

2.2. THE MYTH OF ABSOLUTE CONSUMER/CUSTOMER RATIO

Surveys conducted in the recent past by the competent American and Swiss institutions and researchers, shows that today's are present so-called behavioral economics i.e. economies in which people become irrational and motivated by unconscious cognitive biases. Therefore, we conclude that he had come, or will soon reach the end of the rational and classical economics. Therefore, it seems that customers in many cases act irrational. The biggest number of companies declares that customers and employees are most valuable part of the assets. However, when analyzing business practices, the conclusion is that between declarative and real there is a huge gap both in terms of employees, and in terms of when it comes to clients or customers. "Rare is a company that consistently strives to make customer satisfaction, although many companies know the cost of customer dissatisfaction i.e. clients. More experiments have shown that

⁸² Eric Beinhocker, Ian Davis, Lenny Mendonca: „10 Trends you have to watch, HBR, June 2009. pp. 56.

customers are emotional, depression, shortsighted and easily confused and unable to make the right decision.⁸³

With the disappearance of classical economics, corporate organization and corporate management that is educated on rational assumptions and on assumptions of performing tasks according to the "step by step "will inevitably fade". The irrationality today becomes the "invisible hand" to keep in mind when management makes strategic decisions. That is what Freud once said in a statement that the nature of man that the most important environmental decisions are made in an irrational manner, i.e. emotionally, from the heart. For example, marriage is probably the most important thing in a person's lifetime. This decision is made from the heart, not from reason and the rational reasons, etc. It is therefore important to protect yourself from erroneous and false assumptions and stereotypes. It is shown that a large number of managers, and over 90% of people working on a way to work environment, not in accordance with the needs of action. They prefer to do what they think they should work, than should do, which often exceed the unrealistic assumptions.

That the end of classical economics classical management is certain, confirmed the Great Depression of 2009. It is in some elements contributed to the emergence and development of the crisis. For example, the introduction of speculative activities in the stock market and stock exchange business is the introduction of irregularities in the securities market. Speculative transactions punished all over the world only through futures and other optional arrangements it is allowed to create wealth without work and thus to justify and promote, although the result is called speculative transactions that can be punished by nature, or taxed. According to the American press, before the crisis over five million people in the U.S. the first thing to do after getting up is to look at astrology and stock reports, to determine whether the day will be successful and how stock prices have risen. It is clear that the natural laws everything arises out of something and that nothing can arise out of nothing. Accordingly, in cases of harvesting huge profits from share price growth, or so-called speculative (stock) business it is not about creating new values, but a redistribution of existing ones, which naturally leads to market distortions and crises.

2.3. THE MYTH OF THE INFORMATION AS THE MOST IMPORTANT RESOURCES – INCREASINGLY DISAPPEARING

The necessity of abandoning classical economics is logical, because the business environment has changed dramatically. In fact, all recent scientific studies show and prove that the information is, in addition to matter and energy, the third required component of any organization. For the first two components, ancient Greek philosophers knew, while the third revealed the creator of cybernetics N. Viner discovered a mandatory component. Therefore, non organized entity, not even the whole that is made on the basis of self-organization, cannot exist without information, which is considered the most important resource, especially if they are found in the right place at

⁸³ Researching of this kind dealt Aualet Gneezy of San Diego University, a group of Swiss researchers led by Ernest Fehr, who discovered the phenomenon of revenge. Details of the experiments that challenge the conventional views of marketing and consumer behavior can be seen in Dan Ariely, "The End of Rational economics", HBR July-August, 2009. pp. 78-8

the right time.⁸⁴ It is particularly important in the knowledge economy. Therefore, the information is considered important because it directly affects the quality of management decision making. Given that information is an important resource in the classic sense of the opinion that it must be expensive, which is inclined to a number of countries, their existence is based on the discovery and sale of information or knowledge and that on that basis realize large profits. In other words, developed sales information and knowledge, on that basis are becoming richer and the poor sales raw materials, and are becoming poorer.

However, in modern economy and management, there is a danger that the information could experience “clinical death”, especially in terms of its importance and price. Of course, it will remain important, but in the world of high turbulence, the importance of becoming more and more assessment and management capacity to assess future trends and situations and that based on the assessment, prepare company to be ready to face the upcoming uncertainties and problems. This is due to fact that with the information from the past, in conditions of high turbulence can successfully extrapolate the future. Hence the need of managing elite to feel a presentiment of future events and to react properly.

On the other hand, it is traditionally believed that the price of information, because of its importance, must be high, and that information has to be expensive. The famous futurist Stewart Brand from Silicon Valley 26 years ago said that, “Information wants to be expensive.” This statement was given at the First Hackers Conference, Brandon helped organize, and it is the result of the importance of information as a resource.

However, in modern conditions it is shown that information tends to be free. Thanks to modern information technology, Stewart Brand pointed out recently, “The information requires being free.” Every day we come to Brands’ conclusion in practice. “How much we paid for the video of the killed women in Teheran. It is clear that no one has paid. This is not only the release of payment for the information, but does not praise the person who recorded the event.”⁸⁵

Therefore, it makes sense to, understands the importance of information in relation to the understanding of a few decades in a different, or a milder way. There is a place to treat the price of information in a different light. If the information tends to be free, the question is whether those facts make the information less valuable, and will increase the effectiveness of gratuity information of national economies. Gratuity information will change and design of many companies that are now oriented to the sale of information or knowledge as a proven and verified information. It is believed that the free information, developed as a result of information technology to bring into question the survival of many companies that were engaged in discovery, distribution, and sale of information. Therefore they now have to think about matters to be addressed when the gratuity of information and knowledge gain its full implementation in the business world.

⁸⁴ Ž. Radosavljević et al.,: “Samoorganizacija”, FORKUP, Novi Sad, 2011.

⁸⁵ „No Free Lunch“, Fortuna, 20. July 2009. pp. 121.

2.4. THE MYTH OF THE PLACE AND ROLE OF FOREIGN EXCHANGE RESERVES IN ACHIEVING MACROECONOMIC STABILITY

Following stereotype of classical economics refers to the place and role of foreign currency and required reserves in the economy of certain countries. The stereotype is that foreign exchange reserves are for monetary stability and that they are untouchable, even when it comes to the survival, functioning as the primary goal of each human. Everyday practice shows that every person has the reserves, which in its extremes can be classified as overweight as a result of overfeed and thinness that comes from malnutrition. Certainly, each household has its own “gold reserve”, which is kept in special cases, i.e. to serve the future. The same situation is with each country, where attempts to save, in order to use in case of unforeseen events, or when you should make some technological, or other movement. In extreme cases, material and financial reserves exist for the purposes of war (war reserves), extraordinary natural events, and disasters, in case of floods, earthquakes, fires, etc. These and other reserves, people, companies, and countries use to solve some problems of normal and peaceful, for example when disrupted supply and demand of agricultural and food products. Accordingly, when it comes to foreign exchange reserves, it is necessary to change the traditional understanding in this matter and the use it, not only to maintain macroeconomic monetary stability, but also for developmental purposes. In this context, the truth will appear humble attitudes and concepts that are new and contradictory so far, as can be seen from the attitude of the President of Serbian businessmen’s club, B. Grujić, “I do not understand why someone has the right to have such a high foreign exchange reserve when the whole world is drowning in problems and tries not to allow the economy to stop. Such a policy (the concept) is inadequate to the state of world and national economy.”⁸⁶

There is base for such thinking, especially since in economies the transition are using loans, and funds from international financial institutions to maintain a certain level of foreign reserves. Therefore, it is necessary to review the current understanding of the place and role of foreign exchange reserves and use them in developing projects. Healthy developing projects in the best way can react to macroeconomic stability by creating conditions for increased employment, increase in retail funds, which increase demand and therefore production. Accordingly, the key issue here is not whether to spend foreign exchange reserves, or not, but to find projects in which they can be protected, or to be returned with increased effect. The problem may be, if the foreign reserves would be engaged in misleading or failed investments. Even then, the common sense logic is not endangered that it is necessary to use foreign exchange reserves as a function of national development, which is natural, because the nuclear energy can be used in order to kill people, so no one think of to stop such products as the important source of energy.

The question is why states do not use foreign reserves for purposes of development. One reason is that the state is unable to find the priority projects that will be a “momentum” in launching the social and economic trends. It is clear that there is no problem of lack of funds, but rather is a lack of ideas, where to invest foreign exchange reserves, which

⁸⁶ Intervju B. Grujić: “Guverner vodi lošu politiku”, *Ekonomist*, Beograd, mart, 2010.str. 13.

is like a man who has money, holding it in the bank and collecting interest, as the least profitable business, and it is not ready to invest in developmental sphere.

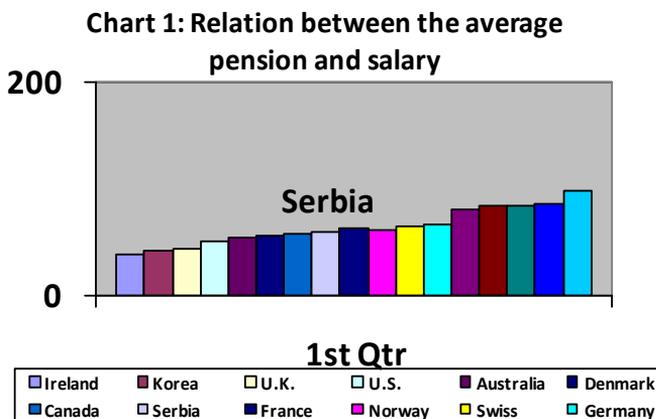
Elimination or breaking down the traditional economy, infrastructure will surely collapse, upon which foundations of industrial economy rely. A new concept must give emphasis to the knowledge economy that in the subtle form represents a higher level of behavioral economy.

2.5. THE MYTH THAT INCREASE IN PERSONAL CONSUMPTION CAN RUN THE “MOMENTUM” OF ECONOMIC GROWTH

Accurate analysis shows that the primary source of economic crisis of 2009 in the U.S. was excessive consumption, which was not accompanied by real economic growth, which led to excessive borrowing of the banking system, and states themselves. This means that the collapse of the financial and banking system was not the cause of economic crisis, but a result or consequence of bad policy, or the concept that more or less existed since the collapse of the gold standard, so it “exploded” in 2008, i.e. in 2009 and lead to global shocks in all spheres of life and work. Accordingly, the current crisis was not only economic but also social, moral, and above all the idea of crisis.⁸⁷ It turns out that the crisis of idea is the most dangerous because it is the most common cause of all other crises, but also the inability to quickly exit from the crisis.

Excessive consumption is the result of two opposing tendencies. On one side are the stakes that arise in budget funds, and on the other side of the variability of business conditions that lead to any serious settlement obligations to the government funds, even when it comes to pensioners, health insurance, etc.

Liabilities to pension benefits are most burdened, especially in countries where the relationship between wages and average pensions is great. It turns out that the countries, in which the relative amount of pension approaching salaries, increase the budget deficit and impairs national, but in the wider area. At the global level, there is a disproportion between the average pension as an acquired right and salaries, which are relatively well can be shown in the following chart.⁸⁸



⁸⁷ Nail Ferguson: Managing in the new world, HBR, July –August, 2009, pp 43-53

⁸⁸ Source: World Bank - The chart is made for persons who have a full work history and who retired at age of 65

The diagram shows that relating to question of the relationship between average pensions and wages allocated tentatively three groups of countries, namely:

- Ireland, Korea, Britain, and America belong to the group of countries that have a low ratio between average pensions and salaries for approximately 40%,
- France, Norway, Switzerland, and Germany are among the group of countries with about 60% of pensions in relation to the average pension,
- Portugal, Spain, Italy, Austria and Greece are countries that pay from 80-100% of average pensions relative to wages. All of that country are at high risk level of stability. Of these countries, Greece has 100% of pensions relative to wages, and one of the reasons there is a crisis in this country should be sought in higher pensions, which are the result of growth of gross domestic product.

Serbia belongs to another group of countries or a group of countries that pay 60% of average pensions relative to wages, which includes Denmark, Canada, etc.

If we add to this the prolonged life expectancy of pensioners and the tendency of further extension, then we can say that well-regulated pension system is a condition of social and economic stability of every country.

Previous findings are significant, because it shows that many have not learned its lesson from previous crises. Specifically, the latest measures to revive the economy and increase the expansion of the Serbian Government is reduced to just forcing individual consumption as a „momentum“ in the initiation of economic activities, or the concept which is primarily promoted by America and that this most prestigious country in the world has led to economic collapse. This concept has its own logic in the eighties, primarily in investment spending and their place is found in the economics of the time. However, they never, and especially consumer credit, have, nor can now have a foothold in modern economics and management. This is because common sense and domestic economies shows that every, especially the loan which is raised for personal consumption is „bad“ because it burdens the future that is uncertain in the present conditions and with high turbulence. On the other hand, investment credits are more or less always friendly and cost of capital does not play a decisive role in taking the loan, but its purpose and area of placement. If the loan is raised to improve infrastructure and strengthen the material basis of the work, it is always acceptable, because anyone who takes the credit needs to ensure the return of principal and interest through the appropriate investments.

So, exit of the crisis by increasing spending is a bad idea that cannot be repaired by any concept, because the crisis caused by consumption without „cover“ or excessive indebtedness. This is confirmed by studies of British „Guardian“ from February 2009. in which the main culprits are required for the development of the Great Depression. The survey showed that as the biggest culprit for the crisis Grispfen Allen was marked, a longtime director of foreign exchange reserves of U.S. United States, for whom voted 32% of participants, which is almost twice that of runner-up George Bush. Respondents were negatively determined in relation to this banker, because he was „forcing“ Americans to borrow too much, and banks to lend credits under favorable conditions. George W. Bush, according to the aforementioned research is indicated as the second culprit, because „it has not stopped the expansion of risky loans of those who did not have a valid guarantee, that they will be able to pay back those loans.“ The survey found that 11% of respondents believe that all Americans are to blame for the occurrence of crises, because they are over-debit, as it „could not resist the cheap credit, although it was expected that they will not be able to return them neatly.“

It is clear that the previous policy we did not learned anything, because the aforementioned scenario is repeated almost in its entirety in Serbia, from which it can be concluded that both economic science and economic policy for the issue above has not changed its position. Therefore, it is impossible to solve the economic crisis using the concepts that are causing it, they must be able to apply new concepts, and establish an economy that will focus on investment, not consumers' spending.

2.6. THE MYTH OF THE IMF CAPACITIES TO BE ABLE TO SOLVE ECONOMIC PROBLEMS IN TRANSITION COUNTRIES

U.S. and EU „suffering“ of excessive government administration. After reforms of the U.S. health care system, the U.S. government spending will be even greater. In the EU were founded many regulatory bodies and agencies whose appetite increases in spending. In these countries, there is no need to use services, recommendations, or advice the IMF, because it is precisely regulated fiscal responsibility and accountability of government for the sound management of public finances. It turns out that any interference with the IMF in some way limit the free conduct of fiscal policy and making any budget they want and that primarily has the component of development.

In countries with bad management, there are many problems with excessive government spending, abuses in the spending of budget funds for political purposes (purchase of the electorate), and lack of accountability, and culture in relation to the host range of budget funds. Bearing this in mind, a space for action of IMF staff is created, but not even is intellectually capable to solve many problems of macroeconomic stability. That makes the problem more complex, bearing in mind that even if the IMF had the potential, the same measures in different countries according to the logic cannot provide satisfactory solutions. It turns out that solutions in one country has provided significant benefits, in other can provide a very modest results, even in losses and damage to particular decisions.

The above warns an American economist and Harvard professor James Kenneth Galbraith⁸⁹ who kindly advised the Government of the Republic of Croatia “Do not pay for assistance an institution that has very limited intellectual capacities and abilities and that has one and the same recipe for all countries and economies in the world. The IMF has never been as significant and important as it presents itself. It has imposed certain regions as a necessary and indispensable factor and institutions, although the economy does not enjoy the reputation of intellectuals. Measures recommended by the IMF are given more or less as only possible in a specific situation, which typically reduce social justice.” Therefore, any reference to the recommendations of the IMF is conceptually unacceptable and more serves daily political needs, or to justify certain commission or omission.

⁸⁹ Son of the famous John Kenneth Galbraith and brother of Peter Galbraith, the first U.S. ambassador in Croatia

2.7. THE MYTH OF THE INDEBTEDNESS AND PERMITTED BUDGET DEFICIT

It turns out that the world is frightened with over-indebtedness and the budget deficit. This problem does not occur in countries with stable financial system, such as Switzerland and Germany, which does not allow deficit financing, as well as in EU countries that can borrow deficit up to 3% of the level of GDP per annum. In many developed countries, there is provision for a balanced budget for regional and local governments, as well as reasonable regulations on the conduct of fiscal policy at the state level, as is the case with G. Britain, New Zealand. In many developing countries, there are similar fiscal rules, often made under the influence of the IMF.⁹⁰ This problem does not occur in countries where the budget deficit can be covered by the private sector.

However, the problem arises when there is a disproportion between the possibilities of the economy and the needs and consumption. From the standpoint of economic policy and fiscal responsibility, the maximum permitted height of the budget deficit in one year set out through the appropriate formula.

The problem of budget deficit is mainly addressed through borrowing from international financial institutions, especially the IMF, i.e. taking loans and other types of borrowing. The largest number of scarce countries is focused on the monetary concept, or concepts that largely promote international financial institutions, primarily IMF. However, these concepts and institutions are the least problematic from the point of success. This is confirmed by the recent opinion of U.S. economists, the American Institute, and the UN expert committee. In fact, late last year the head of the Expert Committee of UN General Assembly for the financial and monetary reform, a Nobel Prize winner Joseph Stiglitz, during a visit to Serbia, stated: "States like Serbia that have entered into stand-by arrangements with the IMF did not have some great benefits from it, and the state of the economy in those countries shows it, before and after the arrangement with the IMF. He further said, "That the IMF requires of these countries that their central bank's focus on reducing and maintaining as low inflation, while financial stability, growth and development, and maintaining employment are neglected."

Thanks to the wrong concept, transition countries, i.e. developing countries and Serbia, as stated, have reached the level of indebtedness. According to the rules adopted in Serbia, "the general level of state debt, excluding obligations of restitution, will be greater than 45% of GDP." The current public debt of the Republic of Serbia is 36.3% of GDP. The real explosion was obvious in recent years, as can be seen from the following table:⁹¹

31.12. 2008	25.6%
31.12. 2009	31.3%
31.08. 2010	36.3%

⁹⁰ Fiscal Rules- Anchoring Expectants for Sustainable Public Finances, IMF, December, 2009

⁹¹ Izvor: FOKUS-Kvartalni izveštaj o institucionalnim reformama, CLDS, Beograd, oktobar 2010.
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Namely, the concept of borrowing to cover budget deficits and maintenance of unrealistic exchange rate is bad, unsustainable, and contrary to the basic principles of economics and host behavior. This statement is true when it comes to taking loans from the IMF. Bearing in mind the dynamics of borrowing it is reasonable to expect that Serbia will soon get to the top of the proclaimed boundaries of the national debt.

In the classical sense, the problem of debt is partially observed with emphasis given to the borrowing limit, and not the essential question of where they obtained the funds invested. It is also unacceptable that the exercise of comparing the levels of indebtedness to other countries and drawing the conclusion that the state is beneath, or within the limits of indebtedness to other countries in the immediate and wider environment. For these claims a large economic or administrative skills are not necessary. Of course, it is important how much is spent, but more importantly on what is being spent. The country may be responsible for completing the budget deficit, which means the spending settlement, and due to procurement of investment equipment, building infrastructure (roads, bridges, oil pipelines, etc.) to be able to produce a new value for the return of taken credits. Accordingly, any comparison of indebtedness, or indebtedness, such as the Republic of Serbia and Croatia, is unacceptable, because Croatia was part of the loan used for road infrastructure that needs to be rescaled in the future, and Serbia is mainly for consumption, which is unproductive and, as such irreversible. Therefore, two identical concepts of borrowing from the same financial institution, the two countries with similar social, economic, political, and cultural characteristics will provide a different perspective (in) effectiveness, and their borrowing will be evaluated differently. Wrong intentional or unintentional use of certain concepts, technologies, and approaches in economics and management leads to many implications of a negative outcome. The question of taking the loan, or borrowing, exceeds the economic side of this issue. This is the question of (im) morality of the highest level, or primarily a moral question that can be viewed from several angles. First, whether current consumer elite has the right to consume at the expense of future generations. Second, the decision on the degree of indebtedness must to be given by future generations, rather than those leaving. Each generation has a moral obligation to the future generations to come to provide some prosperity. However, in modern terms, this idea is so compromised, that the present generation in transition countries most concerned with past and present, and less or not at all with future.⁹²

3. RESUME

The above analysis shows clearly that the classical state, as a traditional instrument of each company IS on its deathbed and must be transformed into a modern organization, which will change its philosophy, concepts, and technology of work. It will be closer to managerial and organizational concepts that multi-national companies implement. The state must be understood as any other organization with clear goals and strategies to achieve them, with the guidance of users of public services. In this context, the

⁹² Relatively good analysis of the economic and debt crisis gave Mladen Kovacevic, "The new Serbian debt is immoral", *Ekonomski pregled*, 6.04 2010, Belgrade, pp. 5. He points out that over-indebted countries lose their sovereignty and that it is better to apply impose the concept of the IMF, since Serbia is in the vicious circle.

government gets all the features of top management in corporate systems, and individual ministries as well as functional managers. For all of them is essential to seek to have the least possible cost, achieve the highest possible effect, analogous to business systems. It is also pointed to the end of classical economics, that is going on, with the increased dynamics in the future. It turns out that many myths that have long formed the basis of rational business and that in the past were applicable and essential to solving the problem today is not acceptable, which is natural, because the changed business environment, and business environment, the relationship between the individual constituents in business at the national level, or globally. In Serbia, the problem of the state and its institutions and public sector appears in severe forms, especially when it comes to the professionalization of the management of government organizations and institutions, and de-politicization and de-ideologization of public sector management, and other government organizations and institutions. In this question, it is necessary to leave the classical and to accept modern, or concepts that are current in modern conditions and that suit today's business environment. If the above does not become a reality, solving many economic problems will be accompanied by many difficulties, such as treatment of disease using the wrong medication. Finally, we should remember Troy Bertrams' saying, "The economy is dealing with two primary issues include: how to make money and how to survive without money", and R. Reagan's, "The greatest minds are not in government institutions. If they did, the industry would have bought them already." These two sayings are reflecting the essence of this text in the best possible way.

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