

PITFALLS ON THE ROAD OUT OF THE SOCIALIST ORDER

— A LONG JOURNEY TOWARDS A MARKET ECONOMY —

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***Summary:** Professional circles and general public would hardly disagree on the assessment that the transition process in Serbia, particularly the privatization as its key component, left much to be desired. The number of privatized establishments continuously lagged behind whatever had been planned; the process unfolded slowly and with considerable setbacks and many privatized enterprises turned out to be inefficient and even unsustainable. Less than successful privatization, as well as lagging behind in performing other activities which constitute broadly defined transition process, gave rise to sharp and widely directed criticisms. The purpose of this paper is to demonstrate that transition is burdened with so many widely varied constraints and confronted with such insurmountable obstacles that its considerably more successful evolution was not to be expected. Surprise and disillusionment are not much more than a result of unfounded expectations and a marked lack of understanding of the mechanisms and the decision processes driving the institutional change.*

To attain an efficient market economy, it is not sufficient just to convert collective ownership into private property. The latter is demonstrated indeed to be a necessary condition for the efficiency of a decentralized economy, but it has always been, and continues to be so, far from a sufficient condition for sought for economic efficiency. To deliver its expected performance, private ownership has to be supplied with an extremely refined and elaborate institutional infrastructure including the transparent and stable legal order, the system of protection of property and contracts, the dense network of ownership registries, the widely ramified institutions of the capital market and, above all, an efficient and uncorrupted judiciary. Building all these institutions is a gigantic task requiring an enlightened and dedicated state. „Building capitalism“ is likely to turn into a demanding challenge, perhaps comparable to the challenge of „building socialism“ some sixty years ago. Expectations regarding the era of an efficient capitalism were simply premature and evolutionary development of some components of institutional machinery needed for advanced capitalism may take decades.

Anticipations regarding the chances of turning inherited socialist enterprises into healthy and thriving economic entities also came out as utopian hopes. Having been wrongly conceived, without the benefit of market signals indicating desirable options of committing resources, were in a sense „genetically erroneously coded“ and generally cannot fit into a market environment. The buyers of these organizations are wrongly criticized for not being

willing or able to keep and develop them on a permanent basis. As they cannot be converted into profit earning going concerns, it is only natural wind them off and to shift resources making them up into superior alternative uses. The impossibility of turning the firm into profit earning unit is diagnosed as negative synergy: the result of the collection of inputs, assembled by the (unprofitable) enterprise is less than the sum of the effects of these inputs considered and taken separately.

The enormous task of transition proves almost infeasible not only on the account of the intricacies of the transition itself but also because of the literally blocking political constraints. Economic calculus widely diverges from the political arithmetic and the officials are unlikely to follow the path of socially desirable transformation leading towards stable and sustainable economic development. Political actors prefer crude dirigisme to the building of an institutional order which would consist of the simple, generally known and equally applied to everyone rules of the game. Power is being accumulated by dirigistic interventions and extending the reaches of discretionary control generates ample space for various forms of corruption. What is good for the society at large is far from desirable by the self-centered, obsessed by the particularistic interests and parochially minded authorities. Strictly speaking, economic reform cannot be properly carried through without prior or at least simultaneous political reform. Building capitalism is ultimately seen as a huge task without proper counterbalance in the form of political will and social ability to come to grips with numerous ventures to be performed in various walks of social life.

Keywords: *political opportunism, public choice, competition among political parties, institution building, transition, private property, contracts, judiciary, informal institutions, the state dirigisme, rules vs. discretion in economic policy, corruption.*

1. INTRODUCTORY REMARKS

Surprise in the theory of information is interpreted as a measure of our ignorance, which includes lacking of information and uncomfortable cognitive entropy. Since it represents a higher degree of surprise, wondering would logically reflect a lack of knowledge at an even higher level. Continuing gradation, angry condemnation, and fierce criticism of some sequence of events could further be the result and consequence of surprise with the implication that is articulated with corresponding theories of relevant information findings. When it comes to the transition - and especially on privatization as its crucial component - it seems there has been a professional consensus that it was simply not successful in its current meanders, extend for a period of about one-fifth of a century. Moreover, privatization, and everything happening in relation to it, is characterized as a failure, as an epochal failure. Sources dominated by such a score can easily be find, but there would be no point to provide a

too long list. Suggestive phrases that exist in the titles of relevant parts: *Becarska ekonomija* (Dusanic 2008), *Privatization in vicious circles* (Kovacevic 2010), *Vengeful privatization* (Sekulovic 2010) and, *The end of privatization and the consequences* (Draškovic 2010) are sufficient. In the cited and numerous other works on privatization trends, there is no doubt regarding adverse assessment, both procedures of this important transition process and its consequences noted in many commentaries, and even with a lot of anger underlines, they are fatal. Regarding political literature, not lacking both skeptical assessment of changes in the political system and longer term prospects which should be expected at the fragile field of parties interspaces and predictable interactions (Trkulja 1993, Vucetic 1994, Komsic et al.

2003, Goati et al. 2004). For political scientists, however, tones are less apocalyptic and less categorical, but reading carefully will help you to understand that trends in this important area of life are far from encouraging.

This is no place for empirical analysis of the privatization process - it would require much more extensive, special attachment - and will instead be given some distinctive elements in this complex and hazardous process. These elements are often emphasized in the literature, and with good reason regarding their undeniable empirical accuracy. First, we should note for many unexpected lengthy privatization process: legislation has repeatedly administered deadline that had to be re-administered several times. It seemed like it will never be completed, and the legislators themselves seemed like they lost a sense of discomfort after repeated delays, so it would not be surprising that, without much excitement determine a new consecutive "deadline". Privatization followed the line for which we can say it was as a symbol of regularity of a certain law of diminishing returns. First were privatized the most attractive companies for which is relatively easy to find any interested buyers; how the process progressed, all problematic, debt-ridden and hopelessly illiquid companies stayed. These are firms with small chances that anyone will be able to be domesticating them. In the meantime, the hard nut to crack remained, the public companies, mostly owned by the republic, but also one which, although still in ownership of the republic, in regulatory and control terms belong to the local level.

It is logical to expect that the state will not - or will not be able to - give up the numerous and powerful enough impacts on functioning of these enterprises, which automatically makes them unattractive, and the likelihood of their privatization, even not successful, is reduced. Especially disturbing is the fact that the prices of services deliver by these companies are often below production costs since they are used - and still are used as instruments of social policy or, as it is sometimes said, as a means of maintaining social peace. The idea of their privatization opens the dilemma of which both components are problematic and difficult to resolve: saving old prices, adapted to the needs of mitigation of social problems, and this causes losses of enterprises, and makes them unattractive for any category of investors; severe price correction in the case of privatization without accompanying conditions would mean a great, unpleasant social impact and political risks for a government that resorted to such a measure. Such social and political impact would not be acceptable neither for the new owners because it would have an adverse impact on their social standing and business reputation. Loss of trust in the community where it intends to operate is the last thing any business man would want, especially when it comes to local public enterprises that provide services to a small circle of interested and the implications of these price to well informed users.

In brief, it is necessary to consider only the most massive component in such complex, unusual and in poorly steered process of transition, so we could say would that the essential features of its dynamics can be summarized by the words that flows on the well-known logistic curve. It is a curve that describes very well the course of many processes in nature, society, and human thinking, including the learning process: the initial stages of the phenomenon is evolving slowly and with difficulty, with small but positive growth rate, after these initial interval of barely noticeable development comes a phase of rapid growth when not only the numerical measure of phenomena, but the rate of growth of the indicator increases, and after that comes a phase of saturation and the growth that is not only slow but is getting slower and slower; the lowering growth rate approaches the phenomena of state of stagnation, which practically means the end of increasing.

2. DELAYS IN THE PRIVATIZATION AND SOME OF THE CRUCIAL CAUSES

Often pointed out failure of privatization is considered through the number of canceled privatization. The corresponding data are conspicuously frequent in public communication. Sekulovic (2010, p. 64) notes that privatization offers a "bleak picture" with its results, and then (v. 67) recalls that one of four transactions privatization was annulled so far. The annulment of the privatization transaction strongly recommend Kovacevic (2010, s 45). He points to the fact that in only 2009, 90 privatization transactions were annulled, along with the transfer of the relevant sections on the Action Fund, and only in January 2010, 18 privatization transactions were annulled. Kovacevic warns to workers' dissatisfaction manifested in strikes and other forms of protests. It seems that strikes and protests occur due to general deterioration of the employment status of employees - wages, working conditions, irregular payment of wages and, especially, permanent and a big risk of layoffs as the greatest threat - and to a lesser extent due to the specific causes such as failure of the new owners to meet some important contract items for the employees. Using strong and unambiguous wording, Draskovic (2010, p. 3) characterize privatization as fail; he says that privatization had to be unsuccessful because it was based on the fiscal order to maximize budget revenues, not on the criteria of encouraging economic development and "maintenance" the level of employment. Draskovic hints broadly represented the idea that the state should take care not only about making companies as favorable as possible, but also to worry about what will buyer do with the enterprise and whether the customer will know how to manage it, and developing it, according to, not always fully specified, social interest. Doubts about the administrative capacity states that, despite numerous and complicated operations that inevitably accompany any privatization, take care of the new owner and the manner in which guide the development of enterprises are much more important than the questions of the possibility of unambiguous and precisely defined social interests.

In the ratings and criticism of privatization and everything that follows it, certain ambiguities are obvious. When we say that privatization is slow, it is not enough advanced, it has given less than expected, the question is what are the criteria of evaluation and on the basis of any standards features of privatization are characterized as inadequate. For example, privatization is slow, but it should have clear ideas about *compared to what that speed is qualified as unsatisfactory*. It seems that various authors have their own, quite idiosyncratic and specific criteria for "optimal" or "acceptable" speed. Differentiation of criteria gives a dose of ambiguity and imprecision. Given the subjective and various determined criterions, the same words and phrases, the same formulation inevitably has a different meaning and different weights by various authors. One could resort to attempt to postulate as a criterion the legal deadlines for the completion of privatization, relocated many times. It is easy to see that is not the way to precision, because law hasn't fixed a deadline but a series of such terms. To which of them could an observer to join? Then, those limits themselves are not, fundamentally speaking, an authoritative criterion: they speak about poor quality of state planning, but they provide a standard for evaluating the speed of privatization. Finally, acceptance of the legal terms as a standard by which it would be possible to reach the required grades - it would be inconsistent, too. Many of us, in fact, generally criticizing the unsatisfactory quality of state planning taken as a whole, it would be logically disharmonized on the one hand to appreciate the fact that the state is poorly planning such and similar ventures, and on another to accept planning parameters fixed in its direction as a standard for assessing the speed of privatization.

The lack of precise and universally acceptable definition of transition is hindering. It is much more clearly what *the transition is*, and not what could be determined. There are no economic changes that would not be followed by parallel and continuous institutional adjustments. Nevertheless, no one is thinking to declare any adjustments for transition. To what extent and terms should be far-reaching and, how fast the transition should be ongoing institutional changes in order to be qualified as transition? One criterion might be moving system from the regime of collective ownership and management and group or central managing private arrangements with the autonomy of economic actors, with the analogous definition of institutional shifts in the political (cultural, perhaps?) sphere of social life. However, is any, e.g. that infinitesimal, displacement of order - to a market economy and parliamentary democracy - the transition indeed? It is necessary to step over some critical threshold in terms of width, depth, and speed of changes – so the transformation of institutions could be named the transition. Changes in Serbia over the last decade of the past century, often waives the status of transition. What dimensions, the degree, and with what characteristics (e.g. the in which direction exactly) should have proceeded otherwise so they could be qualified as a transition?

It is hard to diagnose real, empirically registered movements as transition or take away this attribute if a clear idea of what the normative postulated process actually is lacking, and how, at least in essence, should be exactly look like. In addition, there are uncertainties with respect to the point where the system is not actually moving along that clarified path. What is capitalism and what are the minimum requirements it must meet in order to reasonably be characterized as? If one accepts De Sotas' specifications (2000, *passim*), according to which it is a system with refined institutional infrastructure for defining, protecting and information provision of property, a system that developed for centuries in developed countries, and the path to the point which should mark the end of a transition is very long. In a lecture held at the Serbian Economists Association, Professor Veselin Vukotic rebuked those who provide for the termination of the transition in the foreseeable future and in that sense ask questions of its "late" completion. It is not a process that is measured in years, he said, the transition is not a job for one but for several generations!

Further will be justified that privatization is so large and so uncertain endeavor, one job that relocate the institutional order far beyond its base in which deposits are found on the eve of privatization, and at the same time one shift for which there is no previous experience – it is hard to understand, let alone accurately predicted it. If regularities of privatization are unknown and if it is impossible to perform a clear idea how many of its known flows could take place, it is impossible to reach reasonable normative ideas its reasonable pace, and so to any criteria for assessing its actual flow rate. Privatization is complicated and non-standard in everything; it is difficult to give a reasonable formulate plans for its implementation, it is more complex and the implementation of those plans is subject of great hazards, and finally turns out to be not as simple as at first glance, even to evaluate whether, in its "inconceivably slow" progress, "illegally slow" or just "slow." Finally, when he says "the rhythm of privatization is unsatisfactory" (the word *rhythm* is knowingly used because many privatization were annulled, and so the process itself contained much that was manifested as a "movement or action that is characterized by constant repetition of certain elements" (Klajn i Sipka 2006, p. 1081), should be taken for granted and everything else left unsaid, whether that process could faster. In addition, if so, who could have done it, how and by what means? Privatization is one of those concatenated sequences of multiple complex

tasks, and appropriate operational steps in a difficult to master network diagram, on which it raises much more questions than convincing answers that can be obtained.

The experience of privatization of the economies that (try to) come out of the socialist system has another intriguing regularity that says a lot more of the old (collectivist) and old-new (market) order than it is possible to observe. It turned out that the exit from the socialist system is far more complicated, conceptually much more difficult, and more dangerous than a revolutionary inauguration and then construction or "building up" of socialism. It is not possible to burst into market economy can as it looks like. The notion of going from socialism is as it involves exit from a deep bay, from a civilization crevice. The idea of some kind of intrusion or even a tumble in the market economy is everything else, but not closes to common sense. It is even far too generally accepted notion of formalized privatization model, as a spectacular turnaround and complex cluster of extremely complicated measures and actions, a complex of partially studied inevitably hazardous activities. Even for the activities, there is no clear idea how it will end and whether that could be characterized as a "success." The fact that we fell into the socialist collectivism which involves numerous, complicated and intertwined, and also uncertain operations - as implying that the communitarian order is a sort of pre-civilization structure. As it is an arrangement that returns society to a long gone system, by disintegrating organically grown and evolutionary established institutions, the company returned to a civilization and solved some system that with no kind of modern formation cannot communicate meaningfully. In the terminology of D. North and co-authors (2009. pp. 2-7, pp. 18-25), as if it were a sort of civilization downhill, through socialistic revolution, deeply repressed the community from the state of universal access to the entrance (positions, functions, specialized activities in the social division of labor - Lj.M.) to its natural state; from the *open access state into natural state*.

The question why (real, not defined according to different individual utopias) the socialism was, relatively speaking, so easy to install and it turns out that it so hard to leave, remained unanswered, and indeed rarely asked. Here will be proposed three facts as part of the answer to this puzzling question. First, by virtue of being conceptually and operationally simpler, which released of broad combination of complex combination of institutions which leave important areas of individual autonomy and yet allow the coordination of the wide society, socialism is cognitively simple and cognitively less demanding. This makes easier general social lowering into depressions and valleys of socialism. The second fact concerns the motivation. The abolition of private property and colossal, in a short time feasible redistribution of wealth - opens up the possibility to individuals and groups to come into possession of large assets. It is about values of what most of the newly created ruling elite would not be able to accumulate during three lives. That wasn't establishing *ownership* of so much wealth, but that new form of tightening contained many rights and privileges which makes it highly valuable. The third fact is the almost unlimited reliance on power and coercion: without legal restrictions on the use of force is possible to rapidly shift resources from any of the options to any alternative, as they can be freely redistributed between individuals and groups. By law, unlimited force appears as endless and effective in good, especially in bad. Returning to market economy (and parliamentary democracy) creates a process in which the functional properties are diametrically reverses: from the elementary simple regime of force and coercion system returns to a complicated and devastating uncertain regime, for starters even a modest, individual freedom and individual autonomy. It is a new combination of regulatory and coordination constitutions with much imponderability and with order in which individual behavior should be provided for direct and indirect incentives instead much coarser and partially limited command by the law.

3. THE SIZE OF THE CHANGE AS A HINDRANCE IN THE PROCESS OF TRANSITION

Whatever you specify in detail, the transition is a big change - a big jump, which means global shift of the whole system at one point enough away from the starting to make a complete change unique. The changes of different degrees require different methodology of studying, and differentiated analytics of modeling, not to mention the direction of changes or managing its constituents. If marginal changes, as well as many minor details on global pathways that formalize major changes, seek and assume elaborated analytical range of tools and complex algorithms of exact quantification, this is not the case with major changes. At the level at which, after all, with no analytical difficulties, gradual and minor changes are modeling, large and epochal upheavals are practically insurmountable. No, that general system turn address general characteristics that are subject, even in heuristic, analysis and have far-reaching implications in terms of policy that would direct potential, presumed cases of practical feasibility. Large changes are striking with so many elements that are widely dispersed and because of that cannot be ignored due to the consequences, so some important propositions cannot be derived without empirical and structural analysis. On large formulate changes some truth can be formulated that, once disclosed, cannot be accepted otherwise than as indisputable and self-provable. On major changes, philosophers can, without going into the detailed mechanics of their unfolding, to say the simple and important things more accurate than empirical analysts do. Therefore here we will use with modifications and additions, effective and permanently topical Popper's (1993/1971/p. 24, and then the whole chapter IX, pp. 208-21, and in it, especially pp. 209-11) reasoning on the appropriateness and even the inevitability of *small steps* (step-by-step) in institutional engineering; if the strategy of small steps generally can be qualified as *engineering*, whatsoever.

Small steps, according to Popper and others, imposed as a strategy for institutional adjustments due to simple reason that the great steps are practically unrealizable and therefore unavailable to the reformers of society. Complementing Popper in the extent and in a way this consideration requires regarding possible attempts in institutional engineering and the resulting development to take big, epoch-making steps – three constraints rather than three categories of limitation impose. *The first* category consists of cognitive limitations. Known things about the structural and functional properties of the achievements of the institutions were obtained through practice and tested through it. This means reliable knowledge is available at the point of complex, multidimensional space of institutional alternative that has practically proven, in connection with which the life experiences are collected, which simply indicates the situation in which the company was before joining any kind of reforms occurred in that moment. More specifically, an insurmountable obstacle in taking the large institutional shift is, briefly, the lack of knowledge about remote institutional alternatives. We have only the knowledge of the point in which the company initially found and, possibly, on closer environment of that point. Just as the environmental points of multidimensional space are defined in mathematics (e.g. Aljancic 1968, pp. 32-7; Kurepa 1973, pp. 390-401; Pontrjagin 1970, pp. 284-98).

Limited knowledge for the initial point and its close environment means at least two things. First, some distant, "bolder" alternative is not available because of this deficit of knowledge cannot be implemented. Second, if reformer dared to make a (much) more daring step, despite the cognitive deficit, it would be exposed to enormous uncertainties, and that means hazards which system simply cannot bear. Uncertainty is a higher degree of cognitive deficits than the prime risk; the latter at least implies knowledge of the likelihood of alternative outcomes in such a general social experiment. The risk implies costs and under

certain assumptions may be quantitatively expressed through these costs. Uncertainty means a higher degree of cognitive entropy, and even higher costs than the risk. Excessive costs, costs that cross the border, which with restrictive assumptions can be quantitatively expressed, mean the impossibility of realization of the project that in this formalization is expressed as (too) big step in institutional engineering.

The second obstacle concerns the motivation. Each real constellation of institutional solutions, i.e. find point in multidimensional space of institutional options, represents the *status quo* to which the economic actors, as well as regulatory institutions that formulate and implement economic policies, well adjusted. It can even be said that this adaptation is the best one, i.e. optimal one. The simple reason of this optimality is that all relevant factors were located just at that particular point, and the fact they needed to adjust only to them. There, where they weren't, there was no adjustment and realized adjustments make that point attractive, including the purely financial profitability, for the prevailing multitude of subjects. Adjustments that are – always with effort, risks and costs - already done to some extent may be useful in some alternative points, but only on condition that these points are not far from where the system is initially found. Thanks to adaptation, actors who have resources and have the power - are the strongest in that point. In that point, they have a comparative advantage over those who for various reasons at that point were not active nor were built for themselves a special rank in it. Transferring of a system in a distant point would mean a loss of comparative benefits that are specific for a starting point, the one from which reform begins. At some distant point all the subjects would be placed in the same position, at least in the dimensions concerning the differentiated widely understood and the most generally accepted adaptation activities. Those who have adapted to some *status quo* don't want to go far, because they adapted to it and have the power to defend it. In the most unfavorable case, they have the power to prevent a radical departure from the *status quo*. From a more general position of dominance that has the status quo in relation to other points could arise. It is no accident nor pure coincidence that, in the broad area of life where a huge, centuries-old wisdoms, status quo is shown as a position that is difficult to prevail in respect of which is particularly difficult to form some radical steps.

The third reason of the superiority, and therefore the empirical registered designs and prevalence of small steps strategy - and that is exactly equivalent to justified position on the inability of major shifts in institutional adjustments - is the general perception of the availability of small and large changes in the general public.

It is easier to convince people in the feasibility of minor changes. People not only shy of great changes, but they are very skeptical in terms of looks and possibility that these radical changes can be achieved at all. Difficulties in mobilizing people to implementation of larger changes turned out to be almost insurmountable limitation in their undertaking. As in Dostoevsky's *Demons* is effectively postulated that the scandal has to happen if everyone expects it, so, paraphrasing, here we can say that reversal is not feasible if no one believes in his possibility.

With these three general factors that are imposed as strong constraints in the implementation of major institutional changes, we must specify one more, often pointed out, a specific risk factor in the implementation of reforms. The fact that this epochal, and by the extent and implications a fantastic regulatory shift - must be performed by the state. It is unimaginable that system spontaneously, by itself, could be moved from the regulatory depression in which it has collapsed due to the collapse of the socialist socio-economic system in a completely new order, with developed market system and parliamentary democratic order as

accompanying, of course only natural and expected political counterpart. It remains as a grateful subject of scientific speculation, and various other speculations to guess what would have happened if the system in a deep valley, where the order after the collapse of socialism found, there wouldn't be state intervention and that dissolved institutional arrangement would be abandoned to the autonomous forces that in this state of civilized slippage eventually generated itself. However, there is a specific curiosity, whose implications is only gradually and successively through the evolution of the system will be detected. The curiosity is that in some future state of the liberal order, market allocation and minimal state intervention - the system is going to be translated into a strongly engaged state guidance, with a dose of dirigisme not less than what is from the liberal point of view regularly criticized as "illegal". In short, a very strong state intervention should translate system into an institutional constellation than need to indicate the end of immediate involvement of the state in the economy!

Of undoubted importance is the one general, one could say the systemic risk that is associated with all three inhibitory factors explained in this section. Namely, taking systemic indigestible "radical and bold" steps, because of high uncertainty and certainty of almost cataclysmic outcome, threaten to discredit the whole philosophy of the reform from the base. Compromise could be doubled. First, an additional shadow will fell to any attempt to do some decisive step in the reform of transforming society; community would gain resistance, and could reject as foreign body, even conceived realistically and practically feasible steps if they are a bit bolder than usual. It would be, in other words, the reduced absorption capacity to accept ambitious moves in the field of institutional adjustment, even if those actions are in the domain of availability. Secondly, it could be compromised, and to lose its attractiveness publicly, and the market economic order itself with a parliamentary democracy as its political counterpart. If one accepts that decentralized decision-making and market order as its operating system construction does not have an alternative - or at least nearly as satisfactory substitute - when it comes to the economic organization of society, then such discrediting of the market would be huge expense of society as a whole. Compromising of the market would mean creating deep and lasting political resistance to modern economic reforms, with strong increase of generalized cost of introducing the market mechanism and with equal disturbing breaking of probability of the success those otherwise hazardous interferences into institutional order. That cost is all the more dangerous because it is extended to very long period and the future due to generally higher discount rates for the voters and their political representative has no chance to be properly perceived. This increases the risks to a greater degree and on the broader front in society to consolidate a practice that is otherwise typical in the processes of political decision: that major trends and for future developments *predetermined* decisions make without a full and accurate insight into the consequences that will arise from them.

In connection with all positions articulated in this section, a conceptual refinement is necessary. When we say that the major steps in institution building are unattainable and inaccessible, this does not mean they cannot be *started* or that the state is incapable to collect and mobilize *large masses of resources* in relation to desired and intended realization. Large steps may be initiated, but it is certain they cannot be brought to a successful end. Cognitive deficits and the enormous uncertainty that is inherent in such steps before or later bring a cataclysmic failure with huge resource and losses equally large generalized social costs (including many social balance disorders and disruptive political shocks). The fact that epoch-making steps can complete with epochal failures in the best way shows the collapse of the global socialistic order; it was a big step for which turned out

to be *unfeasible and unavailable*. Another form to express unfeasibility is taking corrective measures in the late stages of the implementation of these steps; these measures are usually a response to great social tensions generated by predictable upside down mounted steps, and the hazards that with the progress of the "realization" of these steps are becoming more visible, manifesting itself as a huge threat to society as a whole. These measures often remove most massive hazards and prevent disaster itself, but they are obviously modify „that step“ that it ceases to be what was initially represented in the vision and plans of large reformers. "Big step" finds its own, usually embarrassing, epilogue in a significantly altered variant, it turns out that that "available and feasible" is something very different from what was planned; eventually is realized that fundamentally changed and substantially different *version*, and the step itself remains in the sphere of utopia, where it was on the beginning of that social stunts, in the moment of initiation.

4. EMPIRICAL ILLUSTRATIONS OF BIG STEPS FAILURES

No matter how large steps are unattainable and inaccessible, it is so big and overwhelming the temptation of the state to start such institutional and economic-political adventure with its apparatus of force and coercion. Since the size and progress of measures and actions related to their realization becomes increasingly obvious that from them can come just a bunch of great social losses and damages, in some stage of implementation they become inevitably modified and thus transformed into an entirely different programs and projects .Modification of these programs is a recognition of their failure and remedial surgery to save society from the serious damages that would otherwise have applied. The collapse of the socialist system is not the only empirical evidence of serious hazards to which the state presents the community with their empty promises and great adventured for which is proved they are located in a huge sphere of unequaled and unworkable. There are many countries where it is possible to recognize these jump-offs into the domain of unreachable.

Theme and space do not permit engaging in detailed listing and analysis of these adventures, but it may be enough to indicate an example from the United States, the most developed economic policy and certainly not least thoughtfully country. In its non-standard shaped study, Browning (2008, pp. 85-91) shows that the American social welfare system - pushed and pulled by well-known political opportunism, which consists in the fact that political actors give to citizens and community groups the huge mass unearned income in order to get the next election votes - has reached proportions that eventually undermine the whole society, and in the longer-term context is obviously unsustainable because it would be under this burden the whole economy literally broke down! Thus, in 2005, total expenditure on social assistance amounted to 5% of the entire GDP of the country and were higher than the total expenditure on defense (4%) and also of the total, expenditure on primary education (3.8%) (Browning 2005, p. 90). Comprehensive analysis includes a number of lacking components in this calculation show that in the United States much as 8% of GDP are redistributed downward! (p. 97).

Browning shows that the regulations and accompanying documents that regulate social charity are numerous, voluminous and complicated that even specialists can hardly follow them, and barely understand - often they do not understand them - even university professors (pp. 92-3, 107). In fact, the great difficulty in following these regulations and their proper understanding have those who write them and confusing interpretation of the

quantities of these opaque and intertwined acts turned into a special profession. After a detailed analysis of Browning (p. 92), the conclusion is that in fact no one understands how works this bulky opaque social assistance system. Let it be added one more assessment - carried out competently and with the use of refined analytical apparatus - that colossal redistribution in which, driven by political opportunism, American state embarked on, reduced the development potential of the economy and led to the present U.S. per capita income for the entire 25% less than it would be that the state has not engaged in this destructive redistribution (p. 188). Further calculations show that the approach without such a destructive state intervention, those who are poor today have earned income greater than the sum of today's welfare and their own earnings, without mentioning those well-off - they'd be much in more favorable position. The U.S. program of social support is actually caused, in other words, the colossal deterioration in terms of Pareto: to all relevant actors economic status has been exacerbated and there are no other relevant subjects whose position was improved, and whose (positive) growth of well-being was seen as a social gain for which just highlighted the deterioration (of all!) could be interpreted as, at least not entirely reasonable, economical price.

It is often forgotten that the state does not generate income to give someone what is not earned; it must take from other what is earned. Redistribution of the state, principally and operatively separating productive contributors to the awards collected; greatly reduce the incentive to work and other relevant development activities. Econometric analysis shows alarming reduction in labor supply due to these so demotivating state actions. According to Browning careful analysis, widely dispersed and scattered foreign social programs of the U.S. is a huge undertaking – *Too big step*, according the Popper's terminology - in social engineering, which in its current design cannot exist because, in case to continue moving its way and how it is structured now, simply destroyed the economy. According to the predictions of this analyst, the state will have to give up of this program due to the economic inevitability. The program will continue during implementation to make the inevitable turn, but from that epoch-making experiences directly, among others, derive two conclusions. First, a *big step* to which American state decided to in the field of social welfare is *not feasible* and *is not available*. Second, when finally (had to be!) the measures taken over its dismantling, it will prove that the state's policy is unnecessary and done enormous damage and led the entire economy down to a lower than otherwise available dynamic growth path. And when they do not produce breakdown in the literal sense - because no policy agree to the disaster that would tragically canceled the benefits of political expediency - big steps inflict huge damages and (generalized) costs before the pressures of disastrous circumstances that force policy of these steps gives up.

This review of the wider world experiences should provide a more general foundation on which can be seen the success (or fail) of transition in Serbia. First, this step was so big that it could not be successfully completed. The transition itself is large enough for economic policy, with its instruments still scarce and limited capacity cannot be digested. This is not a huge one-time job, nor can it be, clear whether to establish a special institution. Those would be to additional institutions for completely non-standard work. The alternative would consist in a heroic attempt to push it somehow into the regular activities of existing institutions. This alternative would have to involve a strong strain of their resources and dangerously approaching the line that is operational (and much more!) beyond their current capacity. In the first case the question is what about these *ad hoc* institutions, which do not fit in regular operation of public services, when extensive work related to the transition, after all, still being finalized, the Italian ministry of finance existed and spent budget assets

of more than 50 years after Italy lost its last colony. Once designed, the institutions refused to wither away and become permanent resource consuming, uncomfortable set of social problems. In alternative variant, in which jobs are assigned around the transition to existing facilities there is a major risk of their overload and, therefore, a kind of short weighting to performing regular functions. The risk is, in fact, twofold: the chances that the quality of the performance of regular jobs will be brought down are big, but jobs about the transition will be done far worse than expected and needed. In Serbia, a compromise version was adopted - new, specialized institutions has been created, the Agency for privatization, etc., along with that to the existing one were given additional duties and were well harnessed in their plodding through a job - but they will never know whether such a compromise is some kind of optimum or maybe worse than any "pure" option. We must learn to live with the lack of knowledge and to reconcile with the fact that some questions will never be answered.

The transition is, therefore, a too big job that to be done in one piece, so that it cannot be followed by many distortions, deviations, bad moves and claims, the inevitable result of all this. When the scope of the enterprise exceed the limits of feasibility, some of its modifications are inevitable. Life logically does not accept the projects that cannot be achieved. *Ultra posse nemo obligatur; ultra posse non potest esse*. This means that not only cumbersome and scary jobs of a transition, but even some of its prohibitively large segments - logically decompose into a number of much smaller group activities. In other words, the transition itself and some of its still huge, components will inevitably be broken down for the realization of smaller and lighter duties. Those small jobs take far more time than originally planned for the overall transition that has to be done - but the inevitability of life would never allow it - in one huge and certainly impressive block.

Purely logical and just fitting in the original time limits may be interpreted as a form and a proof of the impossibility of such big steps. This is finished conclusion that many will no doubt to challenge: the course of the transition must be substantially different from what was imagined in utopian stage of planning. So divided and poured into a large number of meanders, it must last much longer and be less effective - in some ways even less regulated and less elegant - than had been expected and planned at its beginning. Breaking the transition to its separate and not always coordinated structural components therefore is objectively determined. Like all schemes that are made for the transition from one to another, significantly different regime, strategy, and transition plan, reflect legally conditioned office, not to say bureaucratic, romanticism.

Many are surprised by the slow transition, there will be those who will experience the intense slowness and say sadly it is taking too long. The surprise is a measure of ignorance. Thorough study of the nature of the transition, its composition based on a number of complicated and yet the components and its relation to political decision-making imponderability and limited administrative capacity – leads to significantly different conclusion. The character of the transition, the conditions for achieving, and the resources available for its performance - naturally lead to the conclusion that it cannot be done in the initial set deadlines that must start such courses were not anticipated. The transition understood as a single great work, as one huge programming block with branched and interlaced variety of measures and actions, is simply not possible, so - again, naturally - in this variant could not be happen whatsoever.

It remains an interesting question about who would still be able to contact diametrically opposed opinions. In relation to what is envisioned and what has been expected, the

transition is undoubtedly a failure. However, whether this failure should be viewed in isolation and separately - at the beginning of the final decade of last century, something big is planned and feasible, so naturally very different outcome than expected was provided - or rather seen as a component, albeit in many ways big and complex - something more much coarser. Would it not be reasonably viewed as a transition component of the great socialist experiment, perhaps inspired by the noble but utopian endeavor to build a new society, far better than those in which it came out with so many sacrifices and great human cost? As we witness the fate of the socialist order, that experiment had failed - spectacularly - to end, a transition is its final stage, its tragic epilogue. You may not naturally be expected to successfully complete the final act of what is a real epochal failure. This could be as the expectation that the final act of the tragedy is in the sign of a happy ending, if the last act represented a happy ending or containing, tragedy would cease to be a tragedy. It remains a distinction between the two elements in this civilization confuse: whatever it is performed, the transition is the final stage of a huge enterprise that had to end tragically, and in the transition itself, since it is itself a vast and widely scattered, the outcome must be different, far less weaker than what is wanted and expected.

5. THE RESULTS OF PRIVATIZATION AND LIMITS OF PRIVATE PROPERTY

In the previous section has shown that the transition as a major social transformation was undoubtedly a failure, a there are large number of analysts who argued prove (Kovacevic 2010, Sekulovic 2010) that it turned out to be spectacular economic-political and social failure. Because here a systematic attitude is advocated, privatization is by far the most important component of the transition, it would follow that the privatization was unsuccessful. It is, however shown in the second section of this paper. It appears obvious and almost to the logical implication, that a failed transition entails the failure of privatization. It is hard to imagine a successful transition to privatization in which, as its principal component, was so conspicuously failed. Diagnosis of Kovacevic and Sekulovic (2010) logically fit into a completely consistent pattern: the essential parts of the transition (in addition to privatization, there are social welfare, health care, reconstruction of the relationship with the immediate and distant international environment, the policy of reduction poverty, etc.) share the fate of the transition as a whole.

Nevertheless, as the failure of privatization is not sufficient, the current phase of transformation revealed another, equally striking and full of failure consequences. These are effects supplied in large part, however transformed into regime of private ownership economies. Performance is disappointed and, even more than that, almost desperate. There is no room or need to be included in the analysis of development trends over the last ten or even twenty years. They are thoroughly researched and well known (Stamenkovic et al. 2009, pp. 15-28, 29 - 35; Madzar 2010, pp. 13-9). It is enough to register a few facts. Gross domestic product was barely exceeded the level reached long ago in 1989, industrial production is still below that level, employment also, well below the 1989 level, the investments have a permanent lack of infrastructure in critical condition, poverty is increasing at worrying pace, the number of pensioners is virtually equal to the number of employees, foreign trade balances are again permanently, and almost tragically, imbalanced, and inflation is the highest in the region and one of the highest in European and even global

environment. For all sorts of international lists - from the competition, over the conditions for doing business all the way to corruption, and more - Serbia is at so unfavorable position.

To bleak macroeconomic picture is added the unfavorable demographic situation, economic policy, which has no direct connection, but the situation is not favorable: worryingly high age population with a modest life expectancy, low birth rate and very high and still rising mortality, mechanical emptying of whole parts of the republic and the accumulation of population in large cities and some relatively narrow areas. Imbalances are at every step: demographic, development and structural, foreign trade, domestic inflation and a deterioration of market supply. Comparative analysis of residential construction have been made and it was noted that in the "old socialist times" in Serbia was build - ratio varies from year to year - five times more living space per capita than in these times of transition. Is there a more important consumable products than the home and in which part of the commodity segment this could be superior and to compensate shocking inferiority in a production of the flats? Srecko Mihailovic and his colleagues examined the evaluation of this period, including the time of self-managed socialism, regarding the public. He did it on a representative sample and came to striking results. More than two-thirds of respondents considered that finished socialistic time in a number of very important dimensions were markedly superior to this present. The author must, in order to save soul, noting that he can still bring arguments in favor of the thesis that a change was necessary and that the current situation is not much inferior relating the socialist time as one could believe on the basis of a preliminary and superficial insight into indicators. However, to argument this thesis is becoming harder and harder. If one had to answer the question, rapidly what is the current favorable situation, especially what is clearly improved compared to some earlier time, far from the present century, scholars, and economists will have the hard time and is quite uncertain what would be the answer. It could be a series of disappointing responses.

Still, we are deeply stepped into a new institutional order. The ownership structure is fundamentally changed, we are largely in the economy where private property prevails, individual entrepreneurship has become a carrier of economic incentives (to the extent that the resource line is available), the market has carried over many decisions - including the important and obvious - previously taken in the arrangements out of market... Expectations are hugely disappointed, and what a decade ago was happy anticipation, today is reversed in bitter disappointment. If this continues, as it will have, in Serbia will remain a few who will believe in stimulating properties of private property in its power to send the society along efficient and long-term developmental trajectory. What about the private ownership and whether is it worth the effort of the social engagement in its institutionalization? Here we are in the world of private property, a situation probably never been so bleak, with the exception of course, times of war, sanctions, and similar periods of fierce global disorder. Are the ideas and beliefs about the superiority of private property was a mere fantasy and illusion? Is not it inferior to various forms of collective ownership and with whom we lived with before? Is the private property generally superior, just because something in this area is much less effective than elsewhere?

Let now be given some, albeit indirect and not sufficiently explicit, answer to this difficult dilemma. Private ownership is superior in principle. However, generally, it does not guarantee that it will prove to be better than other forms of ownership under any circumstances. There are circumstances under which private property is as effective as it is written in standard textbooks. It is a tool and a repository of economic freedom, free enterprise element, a prerequisite to undertake new ventures and generator of precious

innovation, irreplaceable and powerful stimulant that can only be the right way to link rewards and contributions, the primary instrument for the reallocation of risk and a tool that allows you to take any as many risks as it fits, it is also a powerful instrument of the concentration of funding that allows thousands of small owners invest in large investment projects... It is all that, and none of that. Moreover, whether it will be - *it depends!* Valuation of its huge potential depends on many conditions, among which the most important are institutional. Among the institutional, the most important are those that should - and ultimately can be - create by the state. With central planning, the state left door open, and now seems quite unexpectedly and surprisingly going back through the window. Private ownership will give enumerated, and a good number of those who are not in that list, effects only if the state does its part of the job, which means *under the assumption that the institutional environment created by someone else is the right way that no one can create, and without which almost nothing enormous potential of private property cannot be valued.* The effectiveness of private property - in the first, direct route, but in the final analysis - in the literal sense depends on the state and its role in creating a healthy and stable economic, but primarily business environment. The state is a factor that determines whether a community will have an effective institutional order based on private property or private property will become a source of pathological deviations and systematic distortions in the allocation of resources.

With some surprise (it should be reminded once again that it is, among other things, the measure of ignorance) was discovered something that was known long time in advance and should be known: private property is a necessary but far from being a sufficient condition for achieving economic efficiency. This means that without private property there is no basis for hope in the effectiveness - this insight is, after all, the key message of the great socialist experiment - but that itself, without a host of other factors including those dominated inextricably tied to the state, efficiency should not and cannot ensure. Among the necessary and sufficient conditions is a huge distance in this case. From the private property to the arrangements which we can reasonably hope it would secure economic efficiency - there is a vast space which must be completed and numerous of very demanding institutional structures.

In order to comprehend the institutional conditions related to property provided by the state, it should first of all keep in mind that having a legal superstructure of the elements of fixed capital and the overall social wealth without which these elements of wealth have no economic mobility, and thus do not ensure that a key condition for full efficiency which consists in ensuring the smooth circulation of resources towards the most effective uses. The ownership gives, of course within the law but also through him, the authority to dispose of assets, including their legal ability to ensure traffic flow where it will provide the greatest effects. As in other economic transactions, the price here plays a crucial role. He who has an idea or possibility of a highly productive use of resources over which the property is defined, will have the motivation and ability to obtain or for its rental offering the best price. The funds will go into the hands of those who can pay the most, and therefore those who can use them in the best possible way. To make this happen, it necessary that owner has clearly defined bundle of rights, among which are the three basic rights that are grown in the Roman system - the right to use, usufruct and disposition. The rights provide over the means powers that provide owners unable to effectively use them to enable their alienation, transferring them to the property's effective, while enabling sellers to use received money from the sale and obtaining any other means that will know how and be able to use

effectively. Without the institution of property, there would not be the means for alienating or those who would have a valid motivation to acquire them.

6. PROPERTY RIGHTS AS A DEVELOPMENT FACTOR AND THE "PRODUCTION FACTOR"

The system of property rights is complex, conceptually challenging and ever more challenging in complex operational stage. Like other fundamental institutional arrangements, grows evolutionary and forming during long periods, it can be said during the entire centuries. As utopian ideas can be described how to summarily and almost on an ongoing basis, through institutional engineering, simply build a complex and demanding regulatory infrastructure that will ensure expected efficiency of private property. The reason is simple and easily foreseeable from the fact that the entire infrastructure is expected - and lengthy - a series of properties and functional characteristics. These normative set of desideratum of a complex maze of regulatory constitutions De Soto (2000, pp. 44-62) was formulated on 18 pages. Focus point of his interpretation is that underdeveloped societies have a large capacity of building elements of fixed capital and other components of the real, material wealth and the fact that wealth defined by physical is permanently increases to the extent we are not aware. On its mass, we never have precise information, largely because it is not covered by official statistical system and its measurements. Much, in impressive masses, is created in the informal economy, or at the very margins of the official sector, with only partial and very gradual legalization of what is created in the shadow of the institutional expectations. However, over that real wealth, the absence of its legalization or just providing a gradual, not in the full extent and the strict sense of defined property rights.

The absence of property rights greatly devalues that significantly real wealth, or, better yet, preventing its full valuation. Two identical elements defined physically, financially subjected capital (e.g. two houses or two office buildings) *will have a completely different value if they have a different legal status*: the object with a fully formalized and in the appropriate registers filed property market will be worth much more than an object that remained in the gray area, with no proprietary rights over it to be established. It is easy to figure out why the property is an essential condition for a full evaluation of the real capital. Without secure property rights and reliable information about it, the customer is in a large uncertainty. By entering into a transaction whose subject is the object of formal unfounded ownership, he accepts a huge risk. Soon an entity may appears on the facility grounds for a claim, or the appropriate authority may redefine its status including the decision to be destroyed, so the customer is left without money and without on what the money is invested. Without the legal superstructure there is no real business certainty and, nothing discredit the things in the legal system as well as uncertainty, i.e. the lack of legal guarantees concerning the subject property and precisely established property rights over a given matter. This fundamental idea, which is a key insight into the crucial importance of the legal system as an upgrade over the world of physical things, De Soto (pp. 44-5) has expressed through a powerful metaphor. An agglomeration of physical things that are not legally defined and formalized property, he compared to the mountain lake that has great potential energy, but which, because of circumstances that power plant is not built, energy is not economically valued. The legal system is analogous to the hydroelectric power plant: the vast potential value becomes commercially available in the market and as the monetary value, such as hydroelectric power potential station convert potential of the mountain lakes into generally

usable, widely available electricity. A verified market value of property, for which property is required and necessary condition, it is assumption of high turnover and flow of resources to alternatives of their most efficient use. It is also an essential prerequisite for efficient usage of overall economic potential that a society has.

Property rights are, therefore, an instrument that provides circulation, i.e. relatively quick and easy marketability of physical objects. Without property authorization of things it is difficult to enter into legal transactions, and, when a transaction has occurred, the price is several times less than it should be if the property is established and that the matter enters into the legal, formalized transaction. Where the property is not regulated, not only those things have been impaired, but also much of the potential traffic is not realized. Lack of ownership breaks transaction volume well below the level that would correspond to a regulated legal trade with legalized ownership. This means drastically slow movement of resources, their reduced mobility compared to the level that would prevail in a legal structure for regulated transactions. Mobility is - it is worthwhile to emphasize repeatedly - a key assumption of economic efficiency. Resources are used efficiently only by systems which provide high mobility on a daily basis. Only with a high mobility the resources flows quickly enough from the options at which they achieve lower efficiency to alternative where the efficiency is higher. This is actually identified condition for satisfactory economic efficiency: when resources are constantly under the influence of spontaneous market forces current to the most effective use of alternatives, then the general economic efficiency is automatically insured. By physical producing and accumulating things that have high potential productivity many things are loosed of its purpose if these things continuously and routinely do not exceed from the options that provide less impact on the alternatives to which they be fully valorized. The ability of resources to circulate through legally secured unobstructed circulations according to points of the most effective usage finds its expression through a far higher, the only economic-based evaluation of its natural expression in the higher market price. Although it is not customary to say in this way, property rights and a complex superstructure that accompanies them and that is their essential condition, manifest itself as a powerful factor of production, as a development factor for the advancement of the economy just as important as physically defined elements of the economic process. Property rights are a component of the legal superstructure that provides simultaneously, through market transactions, and reveals the true economic value of *physical* elements in business processes.

First substantial effect of the property originated in this way: it causes, determines, and reveals the economic potential of the elements of defined physical property. Property, by De Soto (p. 50), over infinitely varied world of the physical properties of elements defines a parallel world ("universe") of abstract creations that reflect the world but it translated into a refined economic values. Reported and confirmed economic values are exempt from the specific physical attributes of the production of useful things and silently moving towards alternatives to the maximum valuation, to options on which is going to maximize as values. Ownership is not just one, for all purposes defined right but it is an institution making many different forms and amounts, up to entire bundles of rights. This means that the material regarding the same subject and based on it, is possible to establish large and diverse rights that belong to different subjects, which means that among the various actors, establish different interactions that serve the entire spectrum of various interests in each of these relationships and create new values and increase existing ones. Ownership creates a surplus value above that which is physically incorporated in manufactured items.

In the undeveloped and partially developed and, societies De Soto observed a dual structure: one is legally regulated sector, for which he metaphorically says it is under a glass bell of reliable and transparent legal arrangements, in which resources are highly valued, have high mobility and they are effectively used thanks to spontaneously progress towards points of maximum efficiency. Modernization of society and general social progress De Soto sees and interprets as the expansion of the glass bell and bring greater and greater masses of resources to the legal formalization of their use and highly effective commercial valuation. De Soto goes so far in the distant past, especially in times of the early Renaissance onwards; the industry recognizes the economy islands with establish property and reliable information systems on the owners and their rights. These enclaves of ownership secured segments of the economy, he actually define as the lobes of the capitalist economy that were present in a sea of unregulated ownership of business environments. Such capitalistic creations finds in times of which are generally regarded as the centuries preceding the appearance of capitalism as it is perceiving and defining. In the spirit of this interpretation, it would be interesting to identify the island of capitalism in the sea of unregulated legal industry since the time of slaves. One could say that the economy in one important dimension of the market was more consistent than the current economy is; there was, in addition to labor services, the market of working resources. This market, of course, emerged as a slave market. The institution of slavery (*nexus*) was perhaps the most effective instrument to ensure financial discipline in all of human history.

Another powerful and decisive effect of the system of property rights is the integration of otherwise scattered information about production potential in a single, universally connected in all aspects integrated *information system*. Ownership cannot be defined if is not officially registered, reliably committed and encoded in information system so that all the information, without much lag at low costs, can be made available to all interested parties. When someone wants to buy a house, on the appropriate registry can be informed of its legal status, for example, is there mortgage, easement, or accessory rights that belong to other entities. Without such information, and without rapid and cheap access, the transaction would be far riskier and more complicated, there would be smaller number of transactions, demand would be reduced, things were not flowing quickly enough towards the actors who can most effectively use them, and the value of the subjects of the transaction would be incomparably smaller. Proprietary system, particularly with respect to proprietary information and other real rights established by the case of transactions, expands the horizons of awareness, including decision-making horizons for all economic entities in one system. This is widening circles, and the possible options on which to employ their wealth. With wider and richer groups of options on which it is possible to (re)activate it with what is available, for all subjects included in the system obviously growing the possibilities of increasing the property. By increasing a set of possible options, systems of property rights, directly and in a way that does not require additional interpretation, increase growth potential and certainly raise the pace of growth. Decision-making horizon is extending and quite directly on the basis of increasing the number of participants in information and business interactions: in highly integrated systems that number is growing due to expansion and increasing density communication networks, and with a greater number of participants the amount of information that in such a system can be obtained increases, and virtually every participant obtain. Owing to rounded and completed systems, interested entities may on the relevant parts of the property to collect all the necessary information without being exposed to the effort and expense of obtaining direct access to the property itself; information offered on a regular basis on burdened material assets are sufficient to make a conclusion on the appropriateness of transactions and for personal decision making (De Soto

2000, p. 54). This is possible due to the fact that the proprietary information are standardized, regularly actualized, and universally available (s. 53).

A third important effect of the universal set, applicable to all equally and fully integrated system of property rights is the institutionalization of individual responsibility and the corresponding affirmation of autonomy and individual independence. Without such a system, set of property rights is localized and in fact reduced to a plurality of isolated locally oriented systems. In such systems great importance receive personal relationships and informal - neighborhood and similar - the relationships between individuals. The protection of these rights depends on localized loyalty and mutual trust of individuals who have these separate and isolated systems involved. Personal relationships, friendships and trust are the substitute for the (nonexistent) universalized system of state-guaranteed and objectively established and applied rights equally to all parties. Emergence of unique and fully integrated, universally applicable system frees the individual from these localized dense network of connections and personalized interdependencies. This is widening areas of economic freedom with a known dynamic potential, increases the innovative achievements of the system, and ensures rapid knowing of the system as a whole, the synthetic result of such release of individuals as actors in entrepreneurial ventures is the exorcism of the total development potential and a higher growth rate on long-term sustainable basis.

The fact that parochial, local arrangements cease to be necessary as instruments of property rights means a strong release of individuals from the inhibitory networks of interpersonal relational interdependences. The release of personal interdependence means to increase financial discipline crucial to the future of such interdependence since with disappearing of such interdependencies general neutral, and personal idiosyncrasies of a fully independent rules becoming automatically applicable; the moment of personal connections and affinity becomes irrelevant in business relations and financial relations are separated from the personal. It is understood that this affirmation of the contractual relations and strengthening of financial discipline, greatly increases the efficiency of markets and causes its expansion. Due to the fact that formalized property crucially increases the security of owning and consistent performance of the contract, strengthens the appreciation of property titles in the system, the attitude towards contracts and cumulatively builds respect for the culture of law is improving. All this has resulted in enlarging the volume of transactions, raising their quality, including the mass values that moves through them, resulting in a more vibrant financial market and the intense magnification of values on the basis of enhanced mobility through which resources flow to the point in which a fuller and better economic and financial valuation is obvious.

Formalizing ownership increases economic responsibility in a most direct way. The very fact that it becomes incomparably more clearly who owns what and what rights has in the juridical sense entails the possibility that the transactions and affairs in general far greater mass of values may be lose. The possibility of clearly noticeable loss in a system that is objective and neutral personnel greatly increases the responsibility of economic actors. Madame Bovary paid its frivolity in financial transactions with her life. Formalization of property rights making possible and more alive financial turnover with foreigners. Only by having a formal ownership, the foreigners have the necessary assurance that their partner has nothing to lose, i.e. in case of transaction failure to compensate the loss in value caused by his behavior. The possibility of additional business with foreigners is the basis and mechanism for expanding the horizons of decision-making and newly conquered area useful for making transactions through which the value increases.

The fourth valuable effect of property is increasing the flexibility and substitutability of property (*fungibility*). Instead the subject of transactions are rigid and non-transformable physical goods, formalized property making possible to introduce of property titles - stocks, equity stakes and various other types of equity certificates. As a result, the physical indivisible goods become economically divisible. Selling a selected number of shares may be alienated virtually any part of an object that is otherwise physically indivisible. Practically arbitrary defined proprietary parts of company become easy and convenient object of legal transactions, "the companies are sold in tiny fractions," as once said one Croatian economist. This is a huge advantage, since thus increasing the number and range of possible transactions; with such expansion of the space in which the turnover is possible, property value increases, which means that generally creates a new value. The way in which the property registers a formalized description of the property makes it possible to highlight its specific features and aspects in which the property is similar to other elements of the property complex. This greatly facilitates the combining of the various components of assets and the formation of widely differentiated packages. These packages can meet the different tastes and needs of buyers, including their natural differentiated preferences in relation to risk. This is another dimension in which it is possible to increase the space for new and different transactions, and thus for increasing traffic; it turns out that this provide another strategic direction in which it is possible creation of the new values, both through the production of the new goods and through better evaluation of existing ones. De Soto (2000, pp. 57-8) points out an unusual educational and cognitive function of formalizing the possession of property in the form of property title. These titles are easily combined without affecting the physical objects they represent. Hence, it is possible to detail examination and testing of combining different property strategies - acquisition, separation, fusion of independent properties, and sales of parts of the companies... - before eventually entering the actual transactions. This research increases the mass of knowledge on which the business management and, through a greater cognitive capacity, increase quality, including not only the effectiveness of some explored particular transaction, but also the aggregate amount of business transactions in general.

The fifth effect of the property rights formalization. This is connecting economic actors, establishing among them a dense network of *not personalized but objectified*, i.e. compared to personality's neutral relations. Neutral in this context means independent of any personal attributes and personal idiosyncrasies of specific actors in market transactions. Integrated and universally accessible system of property rights, in his aspect that concerns objectively and neutrally placed information, provides a wide, reliable, and easily accessible insight into the history of how certain elements of property and subjects of them have different ownership and other rights. This information is valuable. Information on the history of the components, for example, houses and other buildings provide valuable insights into the (physically defined) quality of these facilities. Even more valuable is the information on the history of particular subjects of market transactions, for example, that acted as debtors and how neat they were in servicing its loan obligations. This greatly facilitates the selection of partners and, equally important, setting contractual provisions according to their attributes. This increases the total volume of transactions and their quality; the end result is what is the point of every business - the dynamic magnification of values and reaching a qualitatively higher overall business profitability, which has a valuable results in raising the development potential of the system as a whole. Therefore, it turns out that the formalized system of property connects businesses in a dense network of relationships through which, according to preference and individual choice, they can get to know each other better and study the

property that is subject to a transaction. The significance of this fact for the volume of traffic and the pace of increasing the value it is obvious.

It remains the sixth effect of formalized property which consists in the fact that numerous and well differentiated documents - ownership titles, notes on mortgages and other debt loads, bills of lading, bills of exchange... a whole intangible world of ownership documents - which plays the role of certificates of various property rights and allow the emergence of new specialized professionals trained to perform market and financial transactions, many of which are very complex. The owners do not have to know this complex technology to be included in a number of potentially profitable transactions through which develop their business and increase value. It is a form of widening space for business actions, including factor of increasing trading volume and value creation through the wide - and beyond - scale of commercial and financial transactions.*

This long list of important functions that in the economic system performs formalized property, as well as supporting one, also exhaustive, explanations and comments have twofold purpose. *First*, that system provides a wide range of very significant economic and financial effects. In many ways, some of which are not visible and may not be fully interpreted, increases the volume of transactions and cause multiply expansion of the value. It can be characterized as an important factor and of production and a powerful factor of development. De Soto did not accidentally metaphorically presented it as a glass bell under which develops and operates a successful capitalism, and it is not accidentally sporadic episodes of rare constellation occurred in the past, to the extent that the disposal of the forms of legal recognition and protection of property, without inhibition characterized as capitalism! In the spirit of an approach that he offered, on capitalism can be spoken in the Middle Ages (Italian merchant cities), even in ancient times (highly commercialized production sector in ancient Rome). *Second*, it is a remarkably complex institutional structure of defining, protection, and registration of property rights that cannot to appear out from nowhere, but it is the result of enterprise, investment, innovation and modification in the long run evolutionary development that is in some of its components took a whole centuries. All of these factors and shapes of systems development should be understood cumulatively and not alternatively. By this and such a system does not come easily. Although physically almost non-incarnated, all in form of different information and symbolic signs, it is the fruit of long and systematic development and one of the most refined fruits of the overall social development. It is synonym for high level of development and an enviable level of society development. It is a high scope of the overall civilization and the distinctive emblem of stage in its development. Developed proprietary systems are inherent in developed countries, these systems developed by industry and the community may be easier to recognize than the overwhelming majority of other attributes.

From what was said in the previous paragraph, at least two far-reaching conclusion rising. First, it was no surprise that in underdeveloped countries lacking such a sophisticated and highly constructed formalized property systems; such societies are largely undeveloped because such systems have failed to build it. Their economies have failed to put it under the „glass bell“ of clear, precise, universally available, and state-guaranteed legal instruments and related standards. Second, when it is noted that the reforms are taking place slowly and the effects still come out far short of expectations that should not come as surprise. Comprehensive, intensive and in knowledge complex system cannot be build rapidly in a hurry. Assume easily and quickly create a system of property rights is like to believe that the economy can be transformed overnight from underdeveloped to developed. Economies in

transition countries are underdeveloped, so it is naturally (1) that are underdeveloped in that segment of its most subtle institutional infrastructure, and (2) so you should not be counting to rapid emergence of this system or be surprised when it is determined that the pace of its development is found below the expected level. Especially if that level is anticipated in the turbulent times of great social turn of events and almost revolutionary romanticism that follow such legal reversals.

7. CONCERNS ABOUT THE INSTITUTIONAL RECONSTRUCTION OF THE ECONOMY

In the previous section, and throughout the work, the argument that the real causes of economic growth, the secret of its initiation and ongoing maintenance should be search outside of the world defined by physical factors of production is justified.

The answer to the question of how to initiate the growth is contained in the complex world of institutional arrangements. Therefore, natural question arises why countries are not oriented to a radical transformation of institutions in a manner that will conditional activation of its ongoing growth and progress, it can be argued indefinitely. Institutions are intangible, at first glance, and because of that, they aren't resource-consuming or expensive, so, again at the first glance, it might turn out that this is an easy and inexpensive way to turn stagnant economy to dynamic and propulsive. Such determination, in one form or another, prevails through the literature, and dominates in the most sticking. Using strong words of criticism or condemnation, it reproaches the economic policy authorities, and officials who have occupied them, the failure of so desirable and affordable institutional reconstruction of the economy. They talk about their incompetence, selfishness for which it was placed above the particular interests and the public, and the lack of patriotism and social responsibility. A good part and, so to speak, even increasing current number of contributor to professional production, both *scientific* and the *professional* one less ambitious, is surprised, and even visibly angry because of lacking the modernization of institutions that see it as one of the biggest public policy failure of this time.

In light of the remarks from the very beginning of this text, in which surprise treats and measures as a sign of ignorance, this amazement does not cast a favorable light on contemporary economic thought in Serbia. Why managerial forums and officials do not introduce modern and effective institutions, bearing in mind the fact they are greatly developed in the world, and finally that this economy touch the green branches, and move through the trajectory of a successful long-term development? It turns out that to this crucial, almost epochal important question can be provided lots of answers, most of whom, even after incomplete considerations, shown as incorrect. Before that, it is important to note that in these effectively formulated matters is contained an implicit but clear and even hard-done assumption. It converts these issue to more rhetorical, by transforming them into more energetic reproaches. These temperamentally shaped charges are based on clearly articulated belief that officials can efficiently direct the institutional building, and that the country had at its disposal alternative sets of capable executives. That staff would do the epochal task successfully if these incompetent were not taken the leading positions.

7.1. VARIANTS OF THE ANSWERS TO THE QUESTIONS OF MISSING INSTITUTIONAL MODERNIZATION

Why, then, forums and officials have not made their work and why they failed to institutionally transform this economy? The first possible answer would be that they simply could not do that, that the job was too large to be achievable at any form and that this would show as an element of the options available to current political directory. That answer to the critics certainly cannot be acceptable, because it implies the absence of reason for any criticism. Mitigated (sub) version of this response would be that "those in power" are not capable to perform the central undertaking of this time, but there are other, more skilled, and more committed to the challenge, which would gladly perform this task. Strongly articulated critical tone stays in this variant of charges without noticing it already loses its justification in the milder interpretation. Namely, if at the responsible and socially the most important places doesn't occupy those who are the most capable, then we have a *systemic* defect in an important segment of personnel selection, in the extent to which its institutional defects cannot be removed, the society is faced with one objective obstacle to find the "right people" for this great task. The same reasoning would be applied to any another, adjacent, again a milder version of the directory where the ruling authoritative, however, does not know how to do the operation of improving regulatory institutions but *they could learn how to*, only if they wanted to. It should be noted that even this estimate is reduced to the important system, which means an *objective* obstacle: the motivation for learning is one of the most important system properties, so if they are at the most responsible positions in the hierarchy of social guidance failed to learn something important for their work, it follows that the system has not generated an adequate incentive, or at least coercion. To remove that system obstacle it is more difficult than to provide a desired effect - to persuade the ruling directory to do something and to learn – inside the system in the given time.

The following (sub)option would be to accept that although institutions cannot be improved at once due to the undoubted managerial constraints, but these restrictions are permanent and shouldn't be taken for granted or embedded in a social being. According to this variant, managerial constraints can be removed without much difficulty, and then, again without major obstacles, it is possible to access the modernization of institutions. There is a logical error in this reasoning. If we allow that institutions cannot be transformed at once or in the longer perspective due to managerial constraints, we can accept the view that managerial constraints cannot be removed. Removing these restrictions is difficult task of transforming the institutions within them; if not possible to remove small obstacles, and then it is surely impossible to remove just the big one. After all, institutions themselves are a source of management restrictions, so it is hard to imagine that either of these two elements cannot, at least for a limited period, to adapt radically and that it not true for the other one.

It is possible to imagine a combination in which the ruling does not set the necessary knowledge nor is there any reserve that would have the possessed knowledge or at least everything that is necessary to learn for institutional improvements, it would be case of general and insurmountable lack of knowledge, but this option does not need to be further analyzed because it actually reduces to already discussed first version: *the objective impossibility* of desirable but radical modification of institutions.

Closest to the spirit of the current timid and violent criticism would be the attitude that officials and agencies and forums in which they are located have the possibility of radical action and are able to provide the necessary improvements, but they simply wouldn't do that

because something like that isn't in their narrow, particular, and so egotistical interest; they make the right moves, actions that would truly be in line with general interest, they simple aren't motivated. Lack of motivation here means that they prefer, systematically to go for their own selfish interests, but they are trying to promote the general interest for which the take up high - prestigious and influential - positions of the social hierarchy. This seems as precisely centered, fully personalized criticism of the ruling set, but it is not. The motivation that system generates in terms of one way or another behavioral objective is a property of institutional order within which economic policy pursue and take the political decision making processes in the broadest sense of the word. It is widely accepted, and economists are the first to insist on it and will do so permanently, so that individuals and all other social actors behave in accordance with motivation to which they are exposed in a given system. This commitment to the motivation-driven and system conditioned behavior of actors in the social processes it is already accepted and outlined in such extent that corresponding optimization models, originally developed within the economy and the behavior intended to formalize within the economy, widely applied to the behavior are far beyond it: in family relationships, love and marriage, crime, legal arrangements, and, of course, political behavior. Economists are the last to laugh, or even have the right to criticize the behavior of observed subjects that take harsh general orientation and make those decisions that are in their - of course, individual, in this context as any other special interest has no meaning - precisely specified interest.

With such reasoning individuals are in some sense and to some extent qualified for much of what they were criticized for in professional and general public. In the criticism of officials and their policy in a discrete form and secondary level appears one moral issue. Can we, guided by self-interest in our life and daily activities, from some other entities to seek not to cling to their interests, but to keep their endeavors and creative energy directed at a different, more general, or public interest. This, incidentally, meant the sacrifice of their own for the sake of a wider interest, in which we - the critics - have our share. Such a request loses its moral foundation, though with two qualifications which will attach different weight to various analysts. The first is that the decisions of officials, especially those located in and near the top drivers of the pyramid, not only affecting them but that, often in high level, affecting the broad categories of other entities. It is possible to examine decisions that are inspired solely on individual interest and influence, not on many points affects the welfare of other watched community members, especially if the sum of the costs inflicted by other members larger than benefits that located individual has taking on the criterion of decision-taking only their own benefit. There is clearly an open area for interpretation, even for theoretical disagreement.

The relationship between individual and general interests is further complicated by the fact that pushing its own, partial interests often (still!) is the condition for the time that means respecting the public interest. It will happen in cases of a large rift between the general social and public interest calculations (single and selfish) arithmetic of individual utility: if a complete surrender to public and ignoring interests of the individual lead to political collapse of the individual, for example, loss of the race in the next election cycle, and if an alternative political factor was (as in Serbia was and still remains!) markedly inferior in relation to the ruling setting, then the respecting of individual interests, as a condition of political survival, at the same time is in the line of community welfare because it protect against inferior political alternatives.

The second interesting qualification is that the public interest and a partial interest of officials who perform public function is not mutually independent, and certainly do not need to be competing. In the individual interest of officials, who for the community, in its name makes major decisions, may be aiming to a high degree of realization of public interest. This will happen if he provides the basis for the reputation, prestige, advancement opportunities in career, social reputation, and even a place in history. Analytically speaking, the public interest, whatever that is defined, is as an argument in the individual utility function of an individual who is authorized and responsible to make on behalf of (major) decisions. This important additional argument in the individual's utility function will be known if (1) in the system are built-in mechanisms that will be awarding individuals for successful achievement of public interest i.e. in the analogous way to punish the failings in the implementation of the common good, and (2) if, in some case with some individuals, a Kantian voice speak of the conscience as a valuable derivative categorical imperative. Can you imagine Maria Theresa and Catherine the Great in the function of achieving some somewhat small, ground-strictly selfish interests? Own selfish and narrow interests remain public interests; defined at the level of whole empires, as the motives that drive them in their historical dimensioned action.

Nevertheless, here we again face with tough systematic conditionality of the (individual) behavior. The relationship between individual interests of high-ranking officials and the general public good primarily is a systematic question, various systems will opt for that link, if any, in various ways and in varying degrees, and in the analysis and prediction of behavior to see this again (re)directed to the system. This is (*Nota bene*, just one of them!) a dimensions in which democracy could show as inferior to a system of enlightened absolutism (two Empresses weren't randomly selected to illustrate the connection between individual and public interests!). The number of political actors in democratic systems is far greater than it was the case in authoritarian systems of the old empires, where the members of the aristocratic class mostly performed political positions. It could be somewhat the case in some recent autocratic orders. With increasing number of participants, the link between private and public interests in the obvious way weakens, and when their numbers have multiplied enough, the connection is virtually lost. Then relevant become familiar postulates of behavior in decentralized systems, all within the economy elaborated, with well-known system defects that are much more pronounced in the political systems than in the economic, such as different market arrangements. Institutionally caused lack of connection between the general and individual interests must be structured in a rational system to be superseded by some other institutional element, such as various legal, especially constitutional limitations, and education of the public - whose perception and interpretation are a specific element of a widely understood institutional structure - in terms of more accurate identification of outputs and contribution of general political actors to well-being.

7.2. OBSTACLES TO INSTITUTIONAL MODERNIZATION AND THEIR IMPLICATIONS FOR CRITICAL EVALUATION OF THE RULING SETS

In the previous subsection, it was shown clearly enough, that the combination of the determinants of political behavior is very dense and complex. He divides into a number of successive layers located between which is possible to establish a hierarchy established causal relationship - one layer and the connection can run to the other, from this to third and so on, - as can be established interdependency relationship with a very intricate and difficult conceivable feedback. Simple and easy point follows: behind everything that is recognized

and registered as a behavior of individuals is widely scattered group of influential or even decisive factors of what individuals make or not and their collectives and as a rule has its major objective determinants. Noticing patterns of behavior of individuals and observation of undesirable or even dangerous slippage in this behavior should be only the beginning and not the end of a true analysis. At least it is acceptable to focus only on this one element in the processes of social interactions. Behavior patterns and order of acting or non-acting of individuals and, in particular, their different formed categories, are eminently social phenomenon requiring explanation, and social and objective-based interpretation. Place the completely explanatory structure of the whims and caprices, the competence or incompetence, and the individual idiosyncrasies of individuals, and often even identified by name, certainly, and obviously cannot be satisfactorily theoretical and analytical process in social sciences. This striking non-analytic or even anti-analytical approach in the interpretation of mass and far-reaching significance of social phenomena could be called the personalization of social phenomenon. Personalized approach is arbitrary and unscientific. In his vain search for explanations, it remains where real analysis has yet to begin. It is worth quoting Popper again (2002/2963 /, pp. 195-8, 484), this heuristics of the social processes he called *the conspiracy theory*.

Overcoming the personalization of social phenomena is possible only if in the analysis is made a radical removal of individual. This, of course, means the identification and interpretation of social determinants in the processes of their decisions making and, especially, social restrictions in their individual processes and, in particular, collective behavior. Restrictions are also determinants understood in a broad sense, but probably the most important class of such decisive factors. Many of the desirable things in the social process not happening simply because it is not possible. Broadly understood the category of management the most important limitation is the main reason for the inability to realize desired movements and often advisable changes in processes of social movements and so often and so crucially important in their dynamic trends. It follows that the absence of a large and potentially effective and significant change in the institutional order is conditioned by the fact that such changes are simply not possible. There are many ways that may prove this fundamental proposition, some of which are demonstrated below.

First, a very direct and simple, is based on a finding that the institution is ultimately the only factor of economic progress and that only with institutional means – by development and adaptation of institutions – can be started and maintain long-term economic development. When arbitrary, and quickly, building and remodeling institutions *would not be impossible*, there would not be underdeveloped countries. Each country would choose institutions simply that from the standpoint of encouraging growth - and then from the point of view of promotion of other aspects of social evolution – are optimal and proven effective. Economic development would be provided at short notice and without accompanying complications, especially without otherwise unavoidable costs. From the fact that such an "increase as ordered" is not empirically recorded and that among different countries for long periods of surviving a huge difference in the level of development appears, it follows that institutions cannot arbitrary to (re)shape themselves and that the hazardous and laborious processes of institutional development act numerous hard constraints that planners and architects of this development cannot remove.

Another equally simple evidence of inability of quick and freely dispensed institutional engineering consists of a procedure that is based on previous findings, which could be universally accepted, that the economic police hits against institutional constraints and that

cannot lead undisturbed because it is limited by system discipline and obstacles. If we allow that in the formulation and implementation of economic policy is limitations that determine the limits dictated by the system, it must be allowed that not only developing of a system cannot flow freely and according to someone's wants and needs. Systemic transformations, namely, are much more complex, demanding and hazardous, and it is necessary to count on limitations in their implementation rather than economic policy.

The third proof is based on the analysis of already cited Popper's analysis (unfeasibility) of big moves in the social engineering. In the third section is shown, namely, that the strides in social engineering are unfeasible. Feasible are only small, somewhat marginal steps. The argument can now be transferred to a current plan of institutional transformation rate. The realization of an arbitrarily selected small step with high speed is analytically equivalent to the realization of a large proportion of steps with a lower speed. It follows that the speed of institutional changes, regardless of the size of the steps, cannot be selected at will, but is limited.

The limited speed, however, mean that in a given time and for a given interval, the institutions must be accepted more or less as they are. Some otherwise substantially institutions, by its architecture and functionality are far from current, would produce a greater rate of change than is objectively available. Inability of unlimited rapid change means that at a given time institutions remain largely as they are; are evident and are reasonable limitations that flow from it, both for conducting economic policy and for the processes of institutional adjustment, i.e. for developing of a regulatory system.

A huge network of insurmountable constraints in developing of a regulatory system, and all of its institutions, in the economy is contained in the political system. The political arithmetic is different from rational calculations correctly covered and accurately accrued economic benefits and costs. The political system as a complex (yet -in many components decentralized) decision-making order is generally caused by the same functional defects as well as appropriate economic, market order. These defects are scattered along a noticeably wider scale of functional failures and they are incomparably deeper and more far-reaching in its consequences. Many actions in the strategy of political competition, highly productive in terms of strengthening political support and the collection of votes, are literally destructive from the purely economic standpoint, and that means that from the point of view of a properly conceptualized rationality is resting on a clear calculation of benefits and costs. Here we need to mention universal phenomenon of destructive activities of *small and politically well-organized groups*. In a cluster of interactions that have the character of the zero-sum games, small groups find the ways through various forms of political trade – ensuring mutual support in many cases of the parliamentary decision of particular privileges of the support that has the character of barter – in a long series of successive occasions provide for themselves huge redistributive benefits. As associated costs - in fact what they seized from through the redistributive game - come to widely scattered and almost the entire rest of society equalized (huge number) groups, those who damaged, having neither the facilities or motivation to even inform on the ongoing expropriation, not even mention some kind of organization.

Conceptually it is possible to rank a given group of projects by economic criteria, differences, or relationships (depending on the context) between the total sum of the relevant benefits and costs. Economically expedient choice will be one where the difference/relationship is maximal. Sequences of benefits and costs can have widely different time profiles, what can easily happen - and this tendency was empirically

registered – that the most valuable effects are realized in future. Such projects in the political arithmetic go badly; it can be argued that political factors for them are, if not blind, than certainly amazingly shortsighted. Projects and actions that bring benefits for the shortest deadline are politically attractive, even if it is at the cost of enormous long-term costs. The fact that political public is almost blind to the venture whose social profitability is enormous but relocated in the future - is a vast and nameless important topic that we will not process here. It is suffice to say this is a universal feature of the political process in the world, by no means peculiar to our terms and conditions. This universal regularity in our country is special and particularly deepened because of the many disappointments that the public was exposed in the past, which are deeply engraved in collective memory and which caused a dramatic, not to say tragic, *loss of credibility*.

The inconsistency rules the political calculations and accompanying behaviors, a character that is not specific only for local conditions, result with the fact that the electorate rejects the long-term oriented projects even when behave rationally from *the standpoint of their own collective interests*. If electorates are caught and give up some immediate benefits for the sake of much larger future effects, there is no assurance that future governments and their respective constituencies will behave in that way in the periods that follow. Hence, a clear risk that was effectuate many times to be bitterly disappointed the one who still looks to the future and, accordingly, behave sensibly. Therefore, it is worrying unlikely that, in the dynamic context of successive time intervals, the group that decides in some period - let called it *generation* - give up the benefits that might have for the sake of another generation. This known phenomenon is metaphorically characterized by well-known saying *what is good for some; it is not good for other*. This is a peculiar case of dynamically defined on a collective level expressed mass and massive externalities, because of the number of subjects covered by them, take the extreme properties of public goods.

With these few remarks are shown, as short as it is possible for such a complex occurrence, deep structural roots of depravity of political decision-making process in terms of an unhealthy preference for ventures that bring rapid effects, preferably immediately, even if costs were many times higher. Preference of such actions, by the implications for the nature of things, means discrimination of true projects whose real social profitability is very high and which, if they were deliberately and systematically chosen, greatly enlarge the pace of growth and raised a considerable level of sustainability corresponding trajectory.

Restrictions to institutional reforms and restructuring of the system are numerous and far-reaching to be processed here in detail. Let it be noted that regulatory and coordination system is not only what is occurs as a result of government actions, the Assembly and other institutions of public authority. Large, ultimately crucial part of institution is part of the permanent structures in society, inseparable component of its tissue. These are well known, and lately increasingly used *informal institutions*: history and tradition, customs, predominant religion, orientation values, collective memory, precedents from the past by chance imposed as constraints on the current behavior... (Pejovic 2008, pp. 155-63). Informal Institutions are not controllable factor, and significantly limit the area where they could be built and shaped by the formal institutions in the form of laws and accompanying regulations. Informal institutions are much more important than it might be at first glance. They, among other things, (1) choose a selection of the formal institutions whose construction in general may be considered and performed in a society as an alternative of institutional development, specifically, it chooses which formal institutions in one society will be able to build, so not to be dismissed as a foreign body, (2) essentially choose the way

of functioning and effectiveness of formal institutions that may be created. It will sound unusual, but it is true that informal institutions largely determine fate of the formal ones. Let's say that Serbia with its informal institutions has no luck that they are, with their collectivist attitude and the Orthodox parliament, rather developmentally dysfunctional than economically stimulative (Sekulovic 47-54, 65-6).

Another restriction is almost trivial, but no less important. Those are tools and resources, both real and financially, especially the money as cash. For the new institutions, conceived as a generalized procedure deciding or as institutions and agencies, we need a fixed, one-time and ongoing costs, those users will burden on an ongoing basis. Fixed costs include the design of institutions, their testing, public debate, investment in the necessary capacity, including accommodation, equipment and information systems, and especially new employees with new knowledge and skills. Both categories of expenditure severely limit the pace of institutional changes. The inability to properly finance necessary researches jobs, the lack of buildings for accommodation, a lack of money for equipment... all that hinders the implementation of reforms at the rate that considers it desirable and often possible. It turned out during the implementation of the reform of university based Bologna Declaration; many of the steps due to financial constraints simply could not be realized. A typical slogan appears, "*How much money, so much reforms*".

7.3. MOTIVATION AND ACTION OF GOVERNMENT AS AN OBSTACLE TO REFORM

Unfortunately, actions that have a distinct asymmetry of benefits and costs - fast and small and large cost - are more than typical in economic policy and politics in general. Raising wages and pensions checks on the eve of the election brings a nice harvest of votes, a devastating, frightening high costs stemming from the fact that thus undermine macroeconomic stability and generate inflationary tendencies - came only in the distant future with the resulting complications and destructive turbulences that other ruling sets will have to cope.

Analogous, but diametrically reversed, is the case of politically unattractive stabilization programs. Those in the current period of the near generate future heavy sacrifices, a fall in income, rising of unemployment and a dangerous erosion of political support, while undeniable and significant benefits considerably coming in the future, on the basis of balancing the economy which in stabilized, macroeconomic regime successfully grabs along the long-term sustainable trajectory. What is economically the best, optimal, is politically prohibitively expensive, practically feasible. The mechanisms of political decision-making are more than imperfect; it does not seem to say they are depraved.

In the last two decades, especially during the last ten years, a cataclysmic coincidence took place in Serbia, which caused an epochal dimensioned, and, of course, irretrievably damages. The coincidence consists of entry to the scene of a large number of ideological and programmatic very different political parties, with an intensive and literally destructive political competition, on the one hand, and the availability of large masses of funding received outside of current earnings (privatization income, foreign direct investments, excessive borrowing by the public and, especially, private sector, factor incomes from abroad), on the other. De Jasay (1985, p. 259) rigorously proved incompatibility of parliamentary democracy with the economy entirely based on the collective (state) ownership. Reason is that collectively possessed production potential of the economy

becomes subject to destructive political competition. In the battle for the votes, the parties are promising, but also deliver faster-eating of state possessed capital, the only one in this system that company owns. Most likely to seize the government has the political factor which is set by the program, and to realize announced as consistent and true, and destroying the economic basis of society. If combined with state ownership, the parliamentary democracy with intensive competition among parties - destroys the economic substance of society and prevents business and every other survival. System that combines a parliamentary democracy with state ownership in the economy *cannot survive*, and thus lose the place in the classification of alternative institutional arrangements.

To be applied to local conditions, De Jasay's theorem had to be modified. System wasn't based on a monopoly, or to the exclusion of state ownership. The government was in position to have large resources and to include them in competition among parties. A huge advantage were having those who found themselves in power as they get the opportunity to focus these funds under state control in electoral competition and to win many votes by giving voters to spend what otherwise belong to them, and which is a short-term improvement of standards and economic prosperity at the cost of disasters in some distant future. Political competition has led to the situation that the country largely eaten its economic future. The future has already started: after having eaten what has come to hand, including much of the wealth melted by the privatization receipts to turn in current spending came a period of painful fit into its closely tailored resources. The necessity of fit into contributed to rapid, mostly foreign borrowing, primarily private but also public sector; potential that has this borrowing in terms of securing inflows of funds is decreasing rapidly, and by the logic of growing the debt itself. The fit is all the more painful as own resources are reduced through the devastating caustic effect of wealth inherited from our socialist past.

It is worth mentioning one interpretation according to which it is economically dangerous to transfer wealth to current consumption, because it is actually a kind of investment in preserving and strengthening of democratic option in power. Although democracy is not worth much if people have money to live, this interpretation is not deprived of its, perhaps deep and meaningful meaning. If one accepts, as many claim they believe, that the alternative to the current government is so called democratic block, an extremely inferior and even more destructive development, and if it is estimated that the feeding of the element of consumption of inherited and (through borrowing!) future wealth - help "democratic bloc" to preserve the power, then described scenario is a sort of social optimum. In a variety of dysfunctional development and economic future of the country's disastrous decision, it could turn out to be as the least bad. It is hard not to finish this paragraph with popularly styled and somewhat pathetic sentence: a country faced with this economic choice will have a hard time; it could be a country where grass won't grow!

There is a fundamental gap between what is politically profitable and alternatives that are economically purposeful and socially rational. Political factors have strong interest in all forms of interventionism, more appropriate word might be *dirigism*. Direct intervention in the economy quite directly increases their power, and that way leads to access to a broad scale of desideratums, including money and elements beyond understood wealth, literally. Direct interference in the economy means the possibility of giving various permits and imposing equally differentiated bans, approving the award of subsidies and various privileges in business. The moment when the policy directly intervenes in the economy, its decisions and other actions received, with rest, purely financial value. Direct interference of state authorities, with the inevitable reliance on legalized monopoly on the use of force and

coercion, expands for the authorized institutions, including the individuals who occupy influential positions, areas of discretion decision making. Discretionary power is the most suitable element for all forms of trade, as one in which the central component is the money, and those in which they are the subject of execution, omissions and privileges.

The chances and opportunities for abuse and deviation of relationship between government and those whom should serve occur at least in three forms. *First*, the fact that the government can do something creates the possibility and motivation that business circles to people in power offer various forms of incentives in exchange for certain benefits; economy is in a position that, in parallel with the investment in capacity and new technology, invests in relationships with the government as alternatives for increasing profits. This is a classic unproductive search for a rent that represents game with zero sums in which narrow circles of entities benefiting at the expense of society as a whole. In some versions, this game causing and virtually destroys potentially achievable income. *Second*, the government itself comes in a situation to offer the economy mutually profitable combinations, again at the expense of the rest of society. Finally, *the third*, thanks to the authority in relation to the economy, government may directly impose combinations to business circles that are attractive for the government even they are expensive and harmful for the economy. Managing dirigism and expansion of the space for discretion decision making is the main core of institutional corruption and a functional mechanism that facilitates and encourages its initiation and spreading. Birthplace of the corruption is the government; it spreads corruption because it is directly motivated and thus plays the role of its active agent, all others are included in the corruption because they have to or because it is imposed as prerequisite for the realization of some benefits. The word *power* in this sentence has a broad meaning – it applies to all situations where some actors have the opportunity to do something for others or not, to prohibit or allow. Conceptually it can be identifying both and a wide range of corruption in which government is not directly involved but it is conditioning it by its policy. It is about the sectors in which different components of the public policy impose non-equilibrated prices, usually less than at the equilibrium level. There are more sectors like these, a paradigmatic example is the public health where services are mostly free, and in any case far below the demand and supply allocated equilibrium level. Here is not provided normative judgment on providing free health services, and certainly not a normative statement. For social guarantees and state providing health services at prices that are far below the cost of securing that there can be serious and legitimate social reasons, but the fact that the creation of an environment conducive to corruption and predictably generates a big one, again social, cost of such a system. In earning segments in which prices of goods and services match the costs of production, has neither the facilities nor space for corruption. This truth is well presented in the good, old joke. „Go to the grocery store to buy a fruit; you can say that I have sent you and take 120 dinars, they will certainly serve you! “

An alternative to expanding the scope for discretionary decision-making and enlarging instrumentarium of direct influence to position and operation of business and other subjects is developing and strengthening the legal system. This orientation is least suitable to government. Order by logic aligns the position of actors in economic and social life; even when they are not formed in the best possible way, laws approximate Cicero's ideal *Non sub hominem, sed sub legem*. Strengthening of the system narrows, and at some points eliminates the space for discretion decision-making and relation of subjects with the authority making it clear, transparent, and predictable. When you specify whom, what and under what circumstances the rights, the area of free determination have those in power

greatly narrows and people focus on their rights instead of turning people in power so they would allow or provide something. Strengthening of the legal system is the right way of voluntarism of those who hold the levers of political and administrative power, and at the same time is the way to eliminate corruption, both the vulgar with cash as the central element, as well as those more subtle - more generalized - in which subject of trade becoming functionally distant and far less visible performance and counter-performance.

The crucial form of the reform is the improvement of the legal system. Since the strengthening of order disarming weak power, it is natural that in these crucially important social activities it is not motivated to make changes and reversals. To the extent that reform consists in creating of what is most important to society - and this is the order and rules of the game that will be stable and equal for all - in the power lines should be searched for the greatest resistance to reforms. The real reform significantly changes the social relations of power - weakening ones that need to implement it and strengthens the rest of society. If required core - the structural and functional - causes of non-implementation of the reforms and their clear failure, then they should be searched for elsewhere, in the incompatibility of incentives (*incentive incompatibility*), which means in the fact that reform mostly depends on the so-called, power structures, i.e. of those to whom reform gives little a take too much. The least interested for reforms are those of which reforms depend.

7.4. SOME EXPERIENCES IN SERBIA

The conclusion on local experience on the road out of the socialism will be very concise. First of all, in Serbia were tested, with the use of several years, many different strategies and their accompanying operationalization. There was free distribution of capital in the form of voucher privatization, selling with various discounts, sales under preferred terms, the transfer of shares in various funds... from the fact that all sorts of things were tried we can concluded that (1) neither at the beginning nor during the process was clear concept of how to perform privatization, and it seems that is not fully clear even today, given the size and complexity of the problem, the absence of clear concept isn't surprisingly, so the question is whether it should be noted to government as a critical concern, and (2) changing of concepts and occasional combination of incompatible approaches, of so-called connecting incompatibles. Testify on alarming lack of knowledge, especially given the magnitude of changes that needed to be done. There was a shortage even the general knowledge of Popper's theories on difficulties of implementation and the devastating hazards of major steps in institutional turns; if there was, a strategy would at least partially been moved in the direction of sequential decision-making, to the alternative strategy of small steps that would enable learning on the fly. Each step will allow collection of information, experiences, and knowledge that will enable better and more reliable planning of the next step.

To annoying visible expression came the effect of emulation. In a number of countries in transition (CIT) so-called voucher privatization has become very popular, the process of free transfer of current collectively possessed capital. From the very beginning, this was in conflict with the instinct of every educated economist, because if anything needs to be strange and unacceptable to economists, that is the idea of free distribution of something that probably has some value. It should be noted that this bizarre idea is not reflected a fundamental misunderstanding of economic principles - even though it never lack - as a desire to assign voters of what already belong them in an easy manner, to pick the votes and ensure political support. The idea of free distribution of the current collective possessed

capital is not affected nor was happy where it was launched. Forcibly promoted owners cannot be economically efficient entities. If the free transfer of capital to citizens and/or employees had sense - or to say it was less ridiculous - in countries that did not have (larger amount) of foreign debt, in one country with high debt, as it was Serbia, it couldn't have absolutely no economic sense. In one number of CIT arose problem of lacking purchasing power that would allow sales of capital in the internal property market, but it is unclear why in the greater number of CIT was not accept a greater degree of orientation of the foreign buyers. In Serbia, which has owned the dense network of connections with the developed market economies and much larger experiences of doing business with them, this problem has not appeared far from the comparable level. Copy of procedures applied in economies with significantly different situation is dramatic testimony to the lack of knowledge and conceptual confusion, which is complementary with it.

Striking manifestation of conceptual confusion is the sort of concern about the "quality of customers", which became a permanent preoccupation of authorized officials, even beyond the experts. It was considered and still considers that the company must not be sold "at first buyer" but to actors who are professional, with experience in the sector that belongs to the privatized company with the intention of the development purchased company. This attitude reflects fundamental mistrust into market economy, and misunderstanding of its *modus operandi*. Whoever decides to buy the company certainly does not seem to lose value or to waste money. As soon as you engage in this otherwise risky venture, it is reasonable to assume that it will do the best and the most to make the whole job successful. Trying to do the best you can do for yourself, you should - maybe with a some reservations, but never such to nullify the logic of the market mechanism - to believe that this effort will be, at least in basis or by the logic of the overall correlation, a good and for the economy and for society as a whole. Expressing skepticism about the quality and rational consumer behavior, much of the public implicitly assumed there is a large gap between local ownership and interests in a way that developed interest at the system as a whole. Even in the professional, much less the general public there was no serious attempt that this gap in the institutional interests located at various levels of theoretical explanation is rigorously proved. From the state was expected and required to recognize good owners and to sell companies only to those, „high quality buyers.“ As if the state has and needs to have the capacity for discrimination and recognition of those owners who have "quality"! As the beauty market hasn't, among other things, to provide through the pricing competition to pick owners automatically and thus resources fall into the hands of those who will be able to use them in the most effective way. To business indifferent observer it is not quite clear why there is a need to privatize that social (the privatization of state hardly arrived!) the sector if there is no confidence in private owners. In addition, what is going on with the autonomy of economic entities as a fundamental principle of market economy? Whether choice of market can be consider consistent if the freedom of decision-making of actors, on which the overall market architecture is largely abolished?

Distrust in the owners received a number of their specific operationalizations. Companies were sold by obligations imposed to the customer for a number of years, its future ownership and management. These are the famous investment program and a program of social assurance. First, those additions to the price, those additional commitments, exceed the complicated transactions, and have lead to the possibility, probability, and high confusion and possible and perhaps abuse. There is no doubt they opened additional areas for corruption, for truly malignant that is difficult to recognize. For what amount need and should be reduced the retail price, for example, of required future investments in amount of

tens of thousands of Euros? What exactly needs to be (certainly decreasing) function that connects retail price with some sort of (which?) measure of social programs? How much is necessary to increase a social program in order to reduce investment program with sales price unchanged? To these questions were not given analytically responses nor that question were asked in the right way, whatsoever. Later, during the process, they gave up social programs and it stayed unclear how to proceed toward those who perform them and whether there is a place for some *ad hoc* policy that would place all the buyers of privatized enterprises, even *ex post*, in this dimension, and put them in the same position?

When this intricate components of privatization carefully consider, it leads to the conclusion that they due to its economic, especially the market, nonexistence could not be successfully achieved. How can the state know how much to invest in an enterprise? What sense it has to use a contractual obligation to fix the investment when the conditions in the economy are constantly changing, and when something that looks attractive in one period can become extremely unacceptable in a future? This riveting of obligations regardless of the dynamics of life is reminiscent to former self-management agreements when, after a long and unpleasant adjustments, was fixed a number of commitments and appropriate decisions, to be outdated by economic changes, sometimes harmful to all participants at the end. If the state knew how much the company needs to invest, privatization probably would not have been necessary; the role of "high quality" owner will continued to perform, or would take state itself.

With surprise and even indignation and angry, the decision of the new owners to liquidate many companies and some resources from them transferred to another the more efficient use of ownership assessment were welcomed. That anger and protest were the sign of a serious misunderstanding of the market economy and a lack of confidence in it. Since we know the market economy, the principle is that the owner with what he has, within the law, can do he thinks it is necessary. This elementary and principle of self-evident as it is rejected. However, we would to sell the company, but to retain control over it! It is like we would like one thing to happen to us, and simultaneously not to happen. If the owner divide the company and reactivates its resources in other business, it must have its reasons, and those reasons given by the owner, because bears the risk and the consequences of possible errors, understands better than anyone else. For combined resources in a good number of privatized companies can be said to generate and exert a *negative synergy*. This means that a company is poorly structured that the overall effect of combined resources in it is less than the sum of the effects that these resources could independently accomplish in separated usages. This is one of the worst things you can say for any company.

Negative synergy is not as exotic as it may seem since the company originated in a system that, due to lack of production factors and market value weights, which formed, wasn't able to put on a rational basis a foundation of a company. Those companies, as the late Dr. Vidosav Trickovic used to say, was *genetically encoded incorrectly*. What to do with a company that has not set up as it should be? After all, given the fact that these companies were largely unprofitable, which means their costs were lower of revenue, and profit is negative, no buyer would buy them with a clear consciousness, as such, and because they are as they are. Businesses operating at a loss are not even free goods: their economic based cost is not on the zero level but it is negative. Disband those companies and switch them into the appropriate resources where there are likely alternatives for their positive evaluation - it is perfectly rational economic decision. The imposition of these economically unjustified, in fact rationally unimaginable subsequent obligations and limitations, so to

speak, but because of difficulties to be respected in the right way, opened in turn, an additional space(s) for corruption.

We should note here one, little-known and widely available empirical fact. Most of the CITs, especially those successful, largely achieved its growth was by the dynamic expansion of the private sector. However, that growth is not proceeded by increasing the production by lively privatized (former state) enterprises - they nowhere proved to be capable of enduring the survival, more or less, not to mention development - but it was going through expansion of *new private sector* (Winiecki 2001). Follows the conclusion whose importance must not be overlooked or overestimated: when our officials, including members of the economics profession, looking for new owners of privatized enterprises to rehabilitate, renewal and rebirth, then they in their ignorance are looking for something that was never carried out with remarkable and valuable success. In order to properly conduct its own policies, is should occasional look across the border and see what others do and what happens to them.

Expectation of a fundamental restructure of the sector that has been a part of an institutional shift in the collective ownership and from which the state, deciding for privatization, apparently given up, appears like unfounded and naive. Insufficient knowledge of the structural impasses of the sector that is formed under the wing of the state, and imperceptibility that this was a soft-boiled, irretrievably economic tissue, could be the only factors that led to mistaken belief that private initiative can fundamentally and extensively correct severe deformities and consequences of wrongly directed investments that are part of the bitter socialist economic heritage. It is often possible to see wistful glances directed towards Slovenia. This country supposedly act wisely and went through the only proper way of preservation and repairing companies that are inherited from past periods of economic and social collectivism. Recent residence in Slovenia led to different, almost diametrically reversed knowledge. Strongly articulated and, one might say, well argument views were obvious that efforts to preserve jobs and production capacity disrupt and slowed down a natural and necessary process of creative destruction. Protecting the companies that have no chance to survive on the longer-term, trying to preserve the economic base of the past times, economic policy of that country agitated by a natural process and to provide some short-term reliefs of painful transition adjustments, but at the cost of much larger future costs in not very encouraging times that are already in sight. Therefore, a part of the capacity of the socialist period was preserved, but with retention of the inherited structural characteristics and the current structure of the Slovenian economy, which seems markedly inferior compared to its (developed) international environment (Sicherl, 2010). It might be carried out a fertile and rich cognitive future research starting from the hypothesis that the genetic defect of the companies that are forcibly held by government support and intervention offer a separate unhealthy, dangerously effective, base for spreading of corruption in economy.

Of course, it remains a difficult problem of employees who lose their jobs and incomes and falling in a terrible abyss of existential threat. No one needs to explain how difficult it is - physical, social, political, health, and above all the human and psychological - problem. However, it appears that prescribing the obligations of investment above the level of retention of employment for which the entrepreneurs felt it and think it is dictated by the market is *not good and no way to solve this problem*. Both of these additional elements in the privatization contracts are part of the strategy resembling Slovenian, and for which (at least some, and respected ones!) Slovenians believe that it is rational: it is a part of the effort to preserve jobs at the cost of slowing down the creative destruction and perpetuation of

inherited structural disparity, with the long-term damages and costs that may far exceed the short-term opportunistic gains. Damages are, of course, higher than the rational understand standpoint of society as a whole, but not from the particular point of view of politicians, who in cruel fight have their own voices of the public interest, remotely principles and the objective functions. After all, keeping commercial tissue at the specific way of contamination shows up as part of a broader action that hinders and slows down the transition; the prospects that actually that tissue is going to recover do not exist and what is perceived as a value will melt away anyway; it will produce a disastrous slowdown side effect of the reform in other arterial routes, including those not associated with efforts to preserve jobs at problematic tissue.

We should accept one - albeit politically profitable - the fact that double damages are greater than single.

The duality of the damage consists in the fact that, first, the rotten tissue is inherited from the past its juices from healthy, especially those newly formed parts of the economy and, secondly, as it decreases development with its parasitic existence of economic potentials of those segments that could prove to be as healthy and long-term sustainable economic base for the future of this country. It is both part of the already mentioned economically destructive strategy of cumulating votes that undoubtedly bring political gains, but these electoral effects are expensively paid by economic losses and loss of development opportunities. It is worth repeating: the privatization probably would not be possible if the state knew where, how much and how it should be investing. The obligations imposed by the state to new owners are a form of violence over the economy that is moving away from economic optimum. In addition, such, caused by gross assets, removal can only reduce and not increase the prospects of the economy to solve this problem, even in a longer-term perspective. After all, this dramatically overthrow of employment and increasing unemployment as that is just the other side of a long forced process of mostly unhealthy expansion of employment in our socialist past. This process indelibly etched deep stamp of the previous process of "socialist development" that lasted almost half a century, and its grave consequences and it is not possible to erase them overnight. If the socialist development were unsustainable in the long term, it would be logical to expect that the long-term viable enterprises are its product and the medium through which it is going to substantiate. If these companies were not coded incorrectly, and that, as is implicit said our lawgiver, had a long-term chances of survival, privatization - *ceterum censeo* – would not be needed at all.

The conclusion of this lengthy journey through post-socialist transition twists could be brief. We fall into socialism with ease that is almost unbearable, but out of it is tedious and uncertain, full of unexpected consequences and existential hazards. It is an unfortunate that socialism was accompanied by massive human costs; including those literally understood and expressed by the number of heads that would still live a long time if socialism did not happen. However, even the costs of exit from socialism cannot be neglected, such as, decline of production, unemployment, existential vulnerability, reducing life expectancy, pain with severe mental tension and anxiety as well as typical manifestations, deterioration of public health parameters, in some CITs and increasing number of suicides... Difficulties of getting out of socialism can be in fact divided into two major groups. The first group contains those difficulties, which consist of obstacles and barriers as permanent companions of all efforts to pull out the company of a problems caught up in surviving institutions collectively organized economy and society as a whole. The existing institutions strongly affect the configuration of interests and patterns of behavior: it is difficult for people to say good-bye to something they know and what is in the past excluded some, at the present

time, painfully experienced, hazards, and uncertainties. In particular will be small willingness to abandon the old institutions vigorously if memories are still alive of the ended period of rapid and sometimes prosperous, but unfortunately at the time of unsustainable development.

The second group consists of the difficulties of building a new institutional order. In order private property to give those impressive, in the normative level specified effects, it requires a complex and extensive institutional infrastructure that CITs mostly don't have, and will not have it in the foreseeable future. That infrastructure in most of the CITs only need to be build, is looking for a new kind of knowledge and human resources, new information systems, new forums and agencies, new laws and bulk of accompanying documents of lower rank, developed apparatus of regulations, and above all, reform of the political system. Without significantly transformed political system, most of the work from a long list of elements needed for successful functioning and development of the economy based on private property – will not be initiated. You don't go into capitalism just like that, you don't fall into. Capitalism has to be built. The unfortunate fact is that much of what should be built as multiple components of capitalism is not material and physical nature (although it includes the high costs of resources!), not visible and tangible, so it is more difficult to note, conceive and plan. This makes difficult to develop awareness of the need for building and developing mechanisms without which it cannot be effective. More than that, without these mechanisms that are usually understood and interpreted as capitalism - is not really capitalism. Under construction of capitalism, there are lots of jobs and among them the most important job is to change itself. Whether in the development of capitalism ever be mobilized as motivated and enthusiastic as massive as it was in building of socialism? Is this some kind of twisted law of human nature and destiny in an attempt to engage in realizing bizarre and sinful (wrong) things enthusiastically with a larger, fairly significant commitment and more passion than in constructive and appropriate endeavors?

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