

Ljubomir Madžar, The Missing Dimensions in the Evaluation of the Macroeconomic Performance in the Republic of Serbia (Nedostajuće dimenzije u evaluaciji makroekonomskih performansi Republike Srbije) Belgrade, 2008.

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Extensive economic change necessitates institutional reform. This truism is a tenet of modern economic theory. Transitioning Serbia to a market-based economy, a change of monumental proportions, requires substantial institutional reform. We should take into account the next statements:

- institutions are important during the transition process,
- institutions influence the performance of market-based economies,
- it is not possible to implement market-related reforms in an institutional vacuum.

Instead of the unqualified term „free market”, there is the notion of a „market with institutions”. Market economies are embedded in a web of social institutions and habits. Market activities are inseparable from the rational individuals who form the market. The idea of the “end of history” is challenged on the grounds that it ignores the immense as well as persistent variety of institutions and cultures within a market economy itself. Numerous important and influential theoretical statements support the constitutive role of institutions in transition processes. Paul G. Hare describes institutions as social arrangements that regulate economic behavior based on anonymity and shared expectations. He points out that the institutions define the “rules of the game” in the society. Institutions contextualize individual decision-making, especially with respect to risky decisions. Douglass C. North emphasizes that institutions determine the economy by influencing the cost of transactions and production. As a result, the appropriate institutional framework defines the constraints in relation to the plans, expectations and projections of economic actors. What is more, the established institutions reduce the uncertainty connected to a market economy. They provide a framework for the regularity and predictability of economic behavior, and they make available the incentive structure that orients economic agents. Institutions

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are broadly defined; they are materialized in the property laws, organisational relations, state-apparatus, habits, and unwritten conventions. The expansion of private property prompts the emergence of institutions related to market activities. Consequently, institutional reform is one of the most challenging dimensions of a transition to a market-based economy.

These issues represent the context of this book that discusses the central debates concerning the transition process. In this book, Ljubomir Madžar, a well-known Serbian economist, examines the institutional context of economic transition. His analysis is provided in a Serbian context; this provides an insider's perspective into the uniquely complex institutions resulting from a postponed transition. In *The Missing Dimensions in the Evaluation of the Macroeconomic Performance*, Ljubomir Madžar combines political and social theory with empirical analysis to explore the institutional determinations of the Serbian economy. He asserts that it is unlikely that the adoption of a homogeneous model of institutional development would have suited all transition economies. The author then depicts a particular case but does so in the light of universal insights. Accordingly, this book could be regarded as a multidisciplinary case study of Serbia's transition. Some of the ambitious aims that are presented in this book include explaining the shift in the political and economic discourses from the economy poorly developed with market-based incentives to market-oriented economy. Madžar analyzes this change from legal, economic, and political perspectives, arguing for profound institutional reform and the dissemination of institutions based on clear rules. Culture, politics, and society are often dismissed as explanatory tools which are only marginally employed in the analysis. This would be done to account for change which we cannot understand in purely economic terms. However, such a position betrays a misunderstanding of economics and hence of economic transformation. Madžar is concerned about the institutional capacities of the Serbian economy; he doubts that without adequate institutional strength, the economy could not acquire the benefits of transition from socialist/planned to capitalism? That is to say, there is progress in the liberalization of the economy, however the dissemination of these results is uncertain. The conditions under which Serbian policies are shaped are extremely unfavorable. Accordingly, the results in the field of economic policy are to be evaluated within the context of institutional settings. The author of this book assumes that the quantitative data are not decisive in the evaluation practice of achievements of economy. He thinks that it is possible that even a set of numerically less favorable results might deserve a better mark than a set of numerically more attractive results in a different policy environment. Madžar's intellectual efforts focus on explaining Serbia's macroeconomic performance. Madžar's presupposition is that the theoretical engagement in institutional aspects can clarify methods for transitioning in specific situations, and by so doing this could shed light on the reasons that explain the fragile perform-

ances of this economy. By gaining an understanding of the institutional infrastructure, one may avoid the gaps resulting from the narrow perspectives seen in many approaches. Without developing appropriate institutions, it is impossible to obtain the potential benefits of market relations and to establish workable market forms with efficient outcomes.

As well as an effective state, a free market system requires substantial cultural preconditions. Joseph Alois Schumpeter, the famous economist, for instance, has stressed the importance of social values in competitive economies. He has emphasized the symbiosis between capitalism and the old, pre-capitalist values, the norms of loyalty resulting from pre-modern epochs. A market economy can survive in this country because it combines, in different ways and with different degrees of success, the fluidity of property exchange with sufficient social cohesion and moral obligation to keep the contract system going in a complex environment. As Robert Boyer remarks, a transition depends on an understanding of the necessary and sufficient conditions for a viable capitalist system as well as of the complex implementation of capitalism.

Institutionalism highlights the essential nature of institutions, the costs involved in their establishment, as well as the limitations of human activity. The rationalism of economic actors is based on prior habits that invoke the necessity of incorporating these institutions into economic analysis. Concerning institutionalism, the author of this book accepts merely the institutionalism associated with the premise of methodological individualism. Despite mentioning Geoffrey Hodgson along with Thorsten Veblen in this book, Madžar disregards/ignores the methodological collectivism embedded in some orientations within institutionalism. An example is that Hodgson is convinced that the learning process is a significant challenge to market individualism. He calls attention to the fact that from time to time there is no clear-cut distinction between individual and collective dimensions, and that there is an exchange between these dimensions.

The book is organized in three parts. The first part is dealing with economic politics with the economy as the subject of governmental processes. Madžar, is actually interested in the ability of governing the Serbian economy in terms of concrete institutional settings. Aside from the institutionalism and the institution-related theory, his methodology has benefited mostly from the system theory. From this perspective, he is arguing that the Serbian economy is an extremely complicated subject for governability. In fact, it is less governable than other newly reformed countries. The Serbian economy will be difficult to control, and facing the constant threat of ungovernability. We could argue that Serbia has experienced a governmental regression that has dissolved the institutional conditions on which an effective capitalist economic order depends. This is in part due to the fact that the advocates of a/the transition lacked an awareness of the institutions necessary for functional capitalism.

The second part of Madžar's book delineates the empirical constraints of governing the economy. These constraints are classified in the following manner. *First*, Serbia has always been in situations that are determined by frequent changes- all these changes taking place while the nation was unprotected from internal dangers. These include events as remarkable as a total dismantling of the government. The Serbian economy is extremely fragile and is exposed to internal hazards. The *second constraint* is that Serbia tends to destroy the credibility of its governmental authorities and public services. *Third*, there is a perpetual excess of domestic absorption and domestic consumption of the Serbian GDP. *Fourth*, monetary policy is incapable of controlling the volume of domestic transactions. The ineffectiveness of monetary policy results in a limited flexibility in the manufacturing sector. These mentioned tendencies deform the economy, creating macroeconomic imbalances, an oversized grey economy, broad opportunism in economic policies, and widespread corruption. Additionally, there is a weakness in existing governance policies. The political system generates a perverse motivation for political actors, encouraging them to pursue particularistic interests at the expense of the society as a whole. From Madžar's perspective there are other difficulties to be noted: the historical heritage shaped by religious and cultural heterogeneity opens the door for the systematic problems inherent in electoral processes and political dynamics. Political actors often make claims imbued with blackmail. The government experiences constraints resulting from varying demands. Government supervisory bodies are inherently inefficient in providing oversight. Corruption is due in large part to the lack of a strong government. Madžar confirms the well-known tendencies that undermine the role of law. Democratization has a marked negative impact on economic performance; for example, democratisation without a strong legal framework could collapse economic output. There is a large gap between institutions and trustworthy behavior in an economy. A deep distrust exists throughout the economy as a whole. The author of this book emphasizes the factors which arise from a traditional value system. There is no virtuous circle between the premodern, conservative value system and the norms of a modern market economy; Schumpeter's depiction of capitalism serves as an example. In reality, the premodern orientations are blocking all facets of modernization. It is of great importance to understand the negative role of informal institutions which are dominated by the collectivistic preferences, egalitarianism, and uniformity of values. Madžar stresses the anti-individualistic aspects of "axiological communalism" tendencies. He asserts that this results in a suppression of individual freedom and autonomy that are the dynamising forces concerning the economic development. These results could not sustain innovative behavior patterns and self-enforcing market behaviour. As we know from the history of transition processes, informal institutions are very hard to change.

In the third part of this book, the author explicates the forms of axiological communalism in various fields. It influences the behaviour of both politicians and political parties: they are drawn to traditionalist values as a result of these conservative standpoints being attractive to voters. Marketization seeks to free up the economy. However, there is a lack of social groups capable of cementing the market, liberal democratic practices as well as re-emergent civil society. Thus, we are faced with the tension between the processes of democratization and the liberalization of market economy. Democratization aims to break the Communist Party's political dominance and to enable the emergence of a rejuvenated society. An opposing force is created by the political parties' reliance on existing preference structures in response to democratization efforts. Madžar mentions a temporally determined inconsistency: courting voters' favor by satisfying current desires does gain popular opinion in the short run, however this can be deleterious to society in the long run.

The proposal from all of this critical argumentation of Madžar is uncertain. One possible candidate of the solution is the enforcement of the rule of a legal code. A caveat is that this legal system needs the clear endorsement of certain social groups.

Throughout the text, Madžar presents his arguments in a structured and clear manner. There is a need for an alternative set of conceptual and institutional frameworks regarding transitional economies; this is in order to account for the variety of strategies, techniques, and effects that constitute a transition in progress. The political economy of transition has challenged many of the taken-for-granted assumptions of earlier perspectives and has, in interesting ways, begun a deepening of political economy itself. What is even more compelling about this thesis is that the trajectories of change sought by a/the homogenised transition model are such that they have failed to recognise the diversity of experience. They are preferring instead to implement a stock set of policies to enable the supposed transition to capitalism. Recognizing that the reconfiguration of economic as well as political systems occurs in concrete social and cultural milieux, and that these milieux provide the context within which institutions reform, economic liberalisation and political democratisation are reworked. This has important implications for how we approach the question of transition. Post-communist reform is, in this sense, about the reworking of modernity and the reconfiguration of the economic and political institutions and practices put in place (or adapted from pre-communist days) by state (or self-government) socialism. Madžar's book is a valuable asset in understanding the complexities surrounding the issue of macroeconomic performances in transition.