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THE DYNAMICS OF SOCIAL CAPITAL: THE CASE OF SERBIA (I)

I. Introduction

In the last few years many new inquiries have taken place in the "collective", institutional parts of economic development, related to the differences in the civil society of countries. Several tentative findings suggest that the underlying concept of social capital may help to solve some of the main antinomies in development and that the concept can be used as the analytic for the assessment of the dimensions of economic performances.¹ The given countries could have similar capital and natural endowments, but bring into being the different economic outcomes. Consequently, the concept of social capital has explanatory power for the different paths of development, reused as the analytical tool for the policy-related topics.

Without the closer theoretical scrutiny of the concept of social capital, one can recognize the most important aspects of the concept that would orient in the following sections.² The idea of social capital presupposes a *bounded social world in economy* within which the allocation, the distribution of economic resources, and

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¹ Ostrom, E. (1990), Cohen, D., & Prusak, L. (2001), Coleman, J. (1990), Putnam, R. (1993, 1995), Fukuyama, F. (1995), Dasgupta, P. & Serageldin, (1999). According to Woolcock, M. (2001), "definitions of social capital should focus on its sources rather than its consequences", ss. 35.

I refer to the strong critics of the concept of social capital in Fine, B. (2001). Fine thinks that the capital theory is inherently suspect because it is associated with a search for examining intermediate institutions between market and the state. Nevertheless, the social capital theory is implicated by its encounter with neoclassical economics and rational choice theory, and that it ignores questions of conflict and power. But see the instructive defense of the concept in: Tsakalotos, E. (2004). Tsakalotos has demonstrated that in discussing how best to promote social capital, theorists have been challenging some crucial aspects of mainstream economics. In this way, the concept of social capital is not apologetic, but equipped with a critical potential in relation to the value-aspects in economizing.

² Rose (in: Dasgupta&Serageldin, 1999, ss. 141-71), distinguished three types of the theory of social capital, 1. Situational theory that means the social capital is heterogeneous according to the contextual conditions, 2. Social psychological theory that accentuates the set of beliefs, and norms, 3. Cultural theories that endorse the cultural traits.

the determination of the scale of business activities take place; hence the membership or the certain key features of admission and exclusion play the primary role here. The common arrangement raises important opportunities for the members; a crucial example is the collective action in order to solve local problems. The list of cooperative apartment is very wide-ranging, because the networks and voluntary, informal associations and business linkages are the potential candidates for the bearers of the social capital. According to this cognition, we could depict the concept of the social capital on the basis of membership alongside the structured forms of trust, ability to cooperate, facilitating the entrepreneurship, and problem-solving capabilities. It is the ongoing associations of agents with some special commitment to one another and some special sense of their common life. The relationship is thus partly non-functional and resorts to the intrinsic motivation of the agents and to the community of people who share some forms of loyalty and identity.

From the perspective of the capital theory we can say that the social capital is an *intangible asset*, and as the commonly shared space are spreaded outside the state and market-like arrangements and in this sense it is opposite to the third party enforcement and contractual relations. *From the lookout of the theory of public goods in economics the social capital can be treated as the impure public good, for the reason that the insiders/members are able to exclude the outsiders from the benefits of using of social capital.* Besides, the effects of social capital is endorsed as the *intersubjective externality*, since the interdependence of the agents does not arise out of the characteristics of exchanging goods, but of the intersubjective relationships amongst the agents. As are argued, the dimensions of social capital contribute to the overcoming of coordination failures, reduce transaction costs, create mutual knowledge between business-agents, alleviate market failures, facilitate information sharing, and decrease opportunistic behavior. This raises the question of the links between the formal and informal institution that could be structured alongside the divergent and convergent lines.

There is much less literature on the role, and weight of the social capital in relation to the countries of Central and East Europe, or of the so-called countries of transition. The major reason for this lack of awareness is the robust impact and domination of the crude teleological approach in the researches that presuppose the *ex ante* existing, and decontextualized goals of the processes of transition, and subordinate the particular meanings to this projected purposes. The huge and paradigmatic literature on transition ignores the aspects of social capital, it focuses only on the widespread corruption mechanisms, but it could not explain several riddles, with the transformation of this countries.

In recent time, the concept of social capital has found their way into the economic analysis dealing with the dynamic of Central and East European countries, there are explicit considerations that focus interest on the dynamic of social capital in the mentioned countries and make efforts to overcome the ignorance. The social capital

is treated as the “missing link”³ in the explanation of transformational recession in the transitional countries, slow upturn after the collapse of communistic type of regimes, and the enormous difficulties in the institutional building. Actually, there are theoretical efforts to articulate the puzzles during the rebuilding-processes, and the social capital serves as the explanation for the weakening of the cohesive ties of society in the light of the deteriorating of enforcement systems.⁴ The variations of stock of social capital are seen as the reason for the disappointing results of transformation from the central planned to the market economy.⁵ These critical concepts participate in the search for a language that is capable of grasping and expressing social currents that were previously unknown or distant. The general assessment is that the stock of social capital is low in this countries based on the fact of the crumbled social ties and the lack of civil society. Could be this broad-spectrum overview applied to all situations? To put the question in a different way, could the binary contrasts circulate within these debates, such as the division between the “haves” and the “have-nots” the social capital grasp adequately the circumstances in Serbia?

II. The Case of Serbia: the paradoxical aspects of legacy

During the last decade of XXcentury the international researches provide poor data on the social capital in Serbia.⁶ The reason is simple; the Serbia is not seen as the terrain for the investigation of the self-enforcement mechanisms of social capital. In the mentioned period this country was exposed to the war, war-like situations, even to the bombing of NATO-alliance. Due to its politics Serbia was strongly sanctioned by the economical and political measures of UN. Moreover, what is decisive is that the “*uncreative destruction*” of the regime formed the unprecedented economic disorder, the financial chaos with hyperinflation, the inflationary financing of the economy, the disinvestments as the main forms of economizing, the subordination of the business criterions to the political cycles, the spontaneous, insider-privatization governed by the crude force, the widespread political rent-seeking activities. What politico-economic combination was entailed by this situation?

3 Paldam, M. and G.T. Svendsen, (2000b), ss.339-366.

⁴ Holland, J. (1998), Paldam, M. & Svendsen, G. T. (2000a,b), Chand, S. K. & Moene, K. O. (1999), Shleifer, A. & Treisman, D. (2000), Deth, J.W.v., Maraffi, M., Newton, K., Whiteley, P.F (1999), Schneider, F., & Enste, D.H., (2000), Hellman J., Jones J., and Kaufman D., (2000).

⁵ Stiglitz, J. (1999).

⁶ Even the new surveys are lacking to include data on Serbia.

As observers contended the economic hardship and the tendencies of impoverishment are connected to the deep cynism, insecurity, and the sources of authority is eroded. The war as the domain for robbery and producing of capital maintained the state of diffusion of violence. Certain group was doing well out of the war and the new class of winners came into existence. Most importantly, the previous nomenclature acquires ownership rights by transferring political and military capital into economic resources.

In response to the absence of stable formal rules, individuals have invoked in their business practices certain informal networks: paying bribes that break rules; creating informal social networks to compensate for organizational failure. I call this as “business-like arrangements” that means the forms of “business” makes ethical norms redundant, and minimizing the demand on responsible practice. Thus, the outcome of which were effect-oriented and is decided upon causal reasoning as opposed to the classical western model based on innovation, developmental incentives, business ethics, and a sense of responsibility corresponding to the size of wealth and the proprietary attitude.

The business is treated as the sheer survival in the system that makes extremely fragile the public morality and was interpreted as the *exit option* from the formal employment. In fact, the formal employment was conjured up as the insurance on the minimal level of existence, and the business appeared to be something radically informal and *overembedded in the corruption as the form of life*. Seen in the context of such examples, the citizens were not fascinated with the idea of receiving property; many people have chosen to pursue their living as employees further.

This refers to the idea of players acting as strategic actors using information from a ‘history of play’ when making their decision whether to join to the corrupted way of life. Agents in such states decided to defect, because they reasoned in the following way: ‘Well, if everybody seems corrupt, why shouldn’t I be corrupt?’⁷ This is the way of formation of *adaptive preferences*, to use Elster’s notion. I further argue that system had the characteristics that it needed a certain amount of grey/black networks to function. Such networks were consequently tolerated, for example in oil import; in addition, those networks were supported, even when they were kept under control by the state-agencies. Actually, the representants of government agencies took part in the grey/black networks, even this representants were the largest agents in the shadow economies that paved the way for the enduring pathology of system.

The rhetoric’s of the regime pointed to the *all-embracing victimization* caused by the measures of international community, especially, by the exceedingly unjust claims. The rhetoric’s of general victimization (“we are all losers”) bring into view that the regime strived to legitimate the economic shortcomings, and to cancel the dynamics that shifted resources from lower-middle and near-poor classes to the

⁷ Myrdall, G. (1968), Rothstein, B. (1998).

better-off groups. By the same token, the official ideology had urged to support the idea of social solidarity against the selfishness and ruthlessness promulgated by the West-like trade, and business. In addition, the victimization-rhetoric's justified the broadening of the "business-like" life *beyond the lawful borders*, and the overarching corruption with the grey/black networks. The perpetuated positive self-image on "ourselves" who opposed against the unjust measures appeared to bring out the pride as the compensation for the economic grievances: Pride has an upward striving aspect since one lives up to her moral principles without assigning a relative position to others. Accordingly, pride was functioning not as the utter consequence of social advancement but as the source of it.

In contrast to the other Central and Eastern Europe, from time to time forceful collective actions took place against the regime; as a result there was never completed "silence of civil society". One may conceive this state of affairs with A. Hirschmann as the simultaneous practice of manifestation of voice, loyalty and seeking the exit. The expressing of voice, and loyalty lasted a short⁸ while the looking-for the exit option proved to be constant. *This is mutual interdependence of loyalty, voice, and exit in society without basic consensus. Beside, the constellation opens the door for the low-level equilibrium between distorted-market and authoritarian, failed democracy.*⁹

However, this is only one dimension of the business context in Serbia. In the account of the social capital the initial conditions, and the weight of the inheritance, actually, a number of the structural, institutional, and cultural legacies play critical role. The case of Serbia does not fit into the continuum of the transition-processes. What is so other in the picture related to this country is the fact that it inherited the dimensions of outstanding economic position of the ex-Yugoslavia. Exposure to Western trading partners offered access to modern technology and marketing and required a change in business practices.

First, in accordance with the international data Serbia had weaker economic conditions than Slovenia, and was characterized by the macroeconomic distortions, but was treated as a country with medium level of development, and despite the overindustrialisation its position was favorably appraised. Before 1991, ex-Yugoslavia was ranking high on the list of medium-developed countries in the world. The government of ex-Yugoslavia set up the first economical transition toward the market-like system and capitalism at the end of the eighties. The failure of this transition before the "general transition" of the rest countries of Central and

⁸ The regime was several times elected despite the deep dissatisfaction of voters. The distorted election success was based on the acceptance of rhetoric's of regime *as the least worse option*. The Miloshevish regime was the perverted follower of Rawlsian principle.

⁹ According to the "Nations in Transit" of Freedom House Serbia was not described as the dictatorship, but as the authoritarian regime toward the transition.

East Europe is to be explained by reasons outside the domain of economy. Secondly, from the standpoint of social capital Serbia had the legacy of the concept of self-management and social ownership from the economy of ex-Yugoslavia. This concepts are earlier celebrated as the alternative to the central-planned system of socialism, later, however, they was several times criticized as the core of economic shortcomings and as a vanished historical model. Nowadays, the assessments are a good deal divergent. Let to mention an example.

A well-known "ex-Yugoslavian" economist, J. Mencinger has recently reconsidered the setting of transition and expressed the view that "the starting conditions lie in the background of transition. The self-management and the concept of the social-ownership provided the opportunity for the dispersed decision-making and the openness of the economy with favorable starting conditions".¹⁰ If we read this account in the perspective of evolutionary logic, in particular the path-dependence approach the overview of social capital in Serbia is to be changed. This assumption seems to affirm the existence of the multifaceted entrepreneurial skills and activities to run to the business even on the extremely worsened conditions. Being the semi-independent parts of the companies they were the part of the collective learning and have been requiring tacit knowledge. It is noteworthy that these skills in the light of sophisticated education of the Yugoslav-people couldn't be disregarded. The education-skills could be exercised as the massive exit forms in order to migrate from the country, but from the formal economy and legality in general as well.

We next argue, that during the nighties the business as the collective exit option is not to be reduced to the *illegal economy*. The survival in this system can be understood against the background of the following picture. We must demonstrate that how the social capital provides the opportunity for the survival in the form of collective exit options. The social network capital was a resource available not only for the privileged and elites of the regime. Additionally, economic transactions included a variety of non-market and non-material exchanges such as: barter, gift giving, labor exchange, capital-pooling within the family, etc. The people search for the path to accumulation of resources without ownership rights by mobilizing their networks of locality, family, professional ties, and past employment. These spheres of informality overlap but are not the same with the illegal economy. A new notion of kinship, as the dominant form of social interactions, emerges in the arena constituted by the life that is at the edge of the legality. Kinship is either made by networks of shared suffering or by networks of illegitimate advancement. Without any doubt, the crisis-like constellation was hardly furnished with compassion, and responsibility, but emotional and moral dispositions are apparent in family circles and smaller networks of society and could be valuable components of survival. The radical crisis of society get the form of destabilization and gradual dissolution of the

¹⁰ Mencinger, J. (2002), ss. 290.

order, but if the deprivation of sources of validity of values has for immediate consequence that “moral man stands in void”, one could say that people “have to make virtue out of necessity”.¹¹

We must to answer to next question: what to say about the trust, which is of crucial importance in every discussion on the social capital? What can we say on the trust outside the kinship-based networks? Was Serbia a society missing any mechanism of trust, whether Hobbesian or A. Smithian in nature? This grim picture would be a misunderstanding. The gist of my argument is that the social capital, actually, the relationship between formal and informal economic activities is constantly reorganized. We inquire the *dynamical character* of the social capital. One may say that the crisis-like situations lead to the recomposing and reconfiguration of the network-trusts, according to the lines of the outbreak of crisis, for example along ethnical lines.

A crucial example is the remittance that functions as the main form of finance in the absence of large-scale capital inflows, and given the constraints on domestic credit. Serbia has seen large-scale emigration, and workers in abroad all through the period after the World War II. The long-term costs of permanent emigration to a country are observable, but in the short term there is a potential upside, in the form of the inflow of remittances back to the home country. As noted recently by the World Bank (2003), remittances are second only to FDI as a source of external funding for developing countries, but Serbia is among the top 20 countries in the world ranked by remittances as a percentage of GDP in 2001. Serbia will continue to receive large inflows for the foreseeable future. Despite the issue that concerns how are these inflows be channeled, the inflow of remittance indirectly displays the functioning of some forms of social capital, and serves as the base for the survival.

The other sorts of situations we are considering might be said to display a kind of paradox, which is called the *paradox of distrust*.¹² To put it differently, the paradox is how *the trust emerges from the distrust*. The explanation is as follows: my distrust in you is actually based on my trusting (or on my relying on you), you to be consistent in acting on your own interests and in preferring your own interests to mine. In the case of “soft distrust”¹³ I trust you simply to ignore my interests. The dynamic of the emerging of trust from distrust explains the survival in the circumstances of economic hardship. In certain sense, the people behaved as “conditional cooperators” who act cooperatively only when they have high expectations that others will reciprocate.

This clarifies the unexpected simultaneous existence, and hybrid of the principles of solidarity, trust, and mutual exchange as well as threat, corruption, and mutual

¹¹ Koselleck, R. (1988).

¹² Edna-Ulmann Margalit, (2000).

¹³ Edna-Ulmann Margalit denotes the hard distrust, too, that is structured as the prisoner-dilemma according with the game theory.

cheating that govern the formal and informal networks in Serbia. Yet, the question is that the use of such informal networks implied high costs to the general public sphere, and from the perspective of the capital theory, the social return was negative. Many of the above-analyzed theses may confirm that the networks of the winners are justly considered to be mafia.

To sum up the consequences:

1. Serbia had the legacy of the most liberalized ex-communist country, namely, the legacy of Yugoslavia, and different experiences regarding the other countries of transition. At this point, however, it is important to note that the citizens of Serbia have been involved in the exposure of the repeatedly failing transformation to the market-like economy. One may contrast the legacy of distinctiveness in Serbia to the Hirschman's treatment of disappointment as a central element of human experience.

2. The war-like situations have led to the perception of business as the collective exit from the formal networks, but the informal world¹⁴ is not to be equated with the illegal economy. At the border of the illegal and legal economy there are multifaceted forms of economizing, and non-market transactions, and the *coincident forms* of mutuality, corruption, and trusts that make opportunity for the informal practice.

3. Noncriminal exit forms in relation to business have had a stabilizing effect on individuals in the short term.

4. The case of Serbia has demonstrated the coexistence of exit, and voice-options. The degree of this interdependence between the exit and voice is to be depicted.

5. There was a negative social return due to the spreading of the informal networks. The economic crisis did not accelerate the collapse of social capital, but the reorganization of the social capital in accordance with the different trust-entities which emerged. The origin of this trust could be located in the field between the people who are interconnected and bound by the inclusion into the economic grievances.

III. Provisional conclusions

The canonical interpretation of the declining of social capital in Central and East Europe puts emphasis on the negative influence of dictatorship on social capital. The

¹⁴ According to the investigation of Institute of Economics at 2000 more than 1.200.000 people have worked in gray economy, and more than 50% of this "gray-agents" have formal employment (Ekonomist, 2002, a). There is a continuity with the past. The shadow economy in the FRY (Serbia and Montenegro) was estimated to have risen from 32 percent of the official GDP in 1991 to 54 percent in 1993 because of hyperinflation and illegal activities connected with United Nations sanction-busting and the war in Bosnia (see Yugoslav Federal Government 1995).

case of Serbia doesn't fit into this picture. The statement that that it have inherited a relatively low level if social capital is misleading because it neglects the evolution of a wide range of other informal institutions, apart from trust towards governmental bodies.

There are some empirical and some theoretical conclusions. Social capital is to be interpreted as many-sided. Instead of evaluation the homogenized social capital, I examine four dimensions: government agencies, corruption, trust, and civil mindedness. This refers to the multidimensional and temporal interpretation of the social capital. ("Many social capital"). A multidimensional approach allows us to argue that it is different combinations of bonding, bridging and linking social capital that is responsible for the range of outcomes. The social capital existing at the level of certain groups doesn't automatically aggregate to result in better performance for countries. Pointing to certain vicious circles, I emphasized that there is high social capital within a certain informal groups ("bonding" social capital), which help members, but they may be excluded from other groups (they lack "bridging" social capital). In Serbia we can report on the prevailing of the informal bonding social capital over the bridging formal social capital. There are negative impacts of social capital manifested in powerful social groups, which are not accountable to citizens at large, and practice corruption. The overembeddness in the previous form of informal social capital may appear as hindrance for the developing of the formal social capital. The case of Serbia demonstrated that the declining of trust and the weak norms of civic cooperation is demanding in countries with the lack of formal institutions that effectively protect property and contract rights. Institutions and processes that promote value-orientation such as cooperation and solidarity are a crucial part of both the transition to and the maturing of a more participatory and coordinated economic system.

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Summary

This is the first part of the paper that is presented at the conference of EBEN 29-31.2003. In this paper, I am dealing with the relationships between the social capital and some antinomies in the light of business performance in Serbia. The starting point is that Serbia is burdened by odd, postponed transition. The odd transition destroyed some forms of social capital and the postponed transition in business switched the necessary grey/black networks into certain forms of modified social capital. Besides, I explore the path-dependences that determine the dynamic of social capital in Serbia. Hereafter, I uncover some issue related to the weak institutions and uncertainty.

Key Words: social capital, trust, corruption, business-like arrangements, uncertainty, weak institutions.