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THE DYNAMICS OF SOCIAL CAPITAL IN SERBIA (II)

IV. Social-capital after the political breakthrough: the path-dependences, and the intention of constitution of new market order

First, at the beginning of the new order (2000) should be the strategically decision concerning the new constitution that binds and is charged with the complex task: to provide both the ethical basis and stability of community. Turning to the future is to be based on the *ethical overcoming of the legacy of past loaded with unethical aspects, connection amongst the war, criminalized economic activities, and moral crisis of society*. The deep ethical reflection calls for the constitution of the new social environment. This widespread ethical reflection failed in Serbia, and the government took another pathway devoted to the reorganization and pragmatic restructuring of society. But the belief in the emancipator power of the economic and social reforms proved to be naive; the cost of failed ethical reflection is, *among others*, the left over the dichotomy of newly emerging market and ethicality. The government's chance is to enhance its credibility through signaling reform commitment and hoping that real economic improvements will in time feed back into a higher level of social trust. *However, the pragmatic legitimating of the speed of structural adjustments subordinated the need for the ethical reflection.*¹ This lack of initial ethical reflection refers to the insight that generalized morality is one of the crucial ingredients of social trust.

Again, the *form of governance* is also influenced by the existing set of moral norms. The framers of new order in their decision seem to have overlooked the burden of the past lacked the ethical institutions. It mirrors the problem of reinforcing moral norms primarily effected through demonstration effects.

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¹ The amorality was legitimized by the ex-prime minister who has stated that "the ethics is for the church".

Second, after the collapse of the Miloshevich-regime the new Serbian government has faced with the phenomenon of postponed transformation. There is *collective memory* about what can go wrong as there is past experience, which has a negative value in related to the failed transitions at the end of eighties, and during the nighties. The citizens of Serbia do not mobilize in their memory the negative experience of communism, but the failures of transformation of prior system.

Third, low social polarization is really associated with the development of cooperative norms and trust. However, in polarized societies, individuals are less likely to share common backgrounds and mutual expectations about behavior, so it is more difficult to make self-enforcing agreements. In addition, polarization can increase rent-seeking activities — whether legal, through the political system, or illegal, through theft — that undermine trust. Through any of these various channels, polarization can erode trust and weaken cooperative norms.²

The context of business in Serbia is constantly loaded by two features: *the perpetuation of high uncertainty and weak institutions*. Uncertainties are due to the opportunism, bankruptcy, sudden major re-organizations of the firms, and to high political risk in the country. The weaker the institution, the greater the diversity of possible response and the higher the uncertainty with regard to expected outcomes.³ The problem of Serbia and her business-agents is that there are still institutions and practice of the *odd transitions* working, and the newly introduced market mechanisms are weak. Institutional weaknesses lead to the (oligopolistic) competitions between few producers of institutions, and could not prevent the organized fraud, and bribery. The forms of social capital, which proved to be successful for the business as exit during the previous period, appear to be as the hindrance for the completion of the reforms. Hence, we encounter conflict between formal and informal institutions, e.g. formal rules that intend to prescribe rule-bound practice, and informal rules that prohibit to do so and instead prescribe to protect wrongdoers. Consequently, one may say that community is on the path that leads to *social-capital failure*.⁴

In the next sessions I would emphasize four interconnected dimensions, the synergy of aspects that directly and indirectly affect the configuration of social capital; I would like to give emphasis to some vicious circles built-in the dynamic of social capital in Serbia.

a) Government agencies and public institutions. When it launched market reform, the government needed to legitimate reform policies among the agents of the state and to intervene to create the institutional framework of an economy. This effort required the state to specify and enforce a new structure of property rights and to lower transaction costs in the economy. New legal codes to regulate enterprises

² Knack, Ph. (1997).

³ Whitley et al. (1996), Nec, V. (2000).

⁴ Like markets, and governments, communities can also fail. In this sense, Bowles, S. (2002) denotes the concept of community failure.

and market transactions needed to be instituted and enforced. Law must specify the legitimate uses of public property and resources. In short, the institutional framework buttressing markets have to be renewed, constructed, and legitimized by the state.

The social capital is not the direct result of the top-down processes, this warns us against active interference by the government. One of the most important functions of social capital, after all, is its ability to occur spontaneously in crisis-like situations. However, the representatives of government should put the questions: I) what are the channels of the building process for positive social capital going to be? II) How can the processes of social capital building speed up? Above and beyond, we are faced with the question, how does the behavior of government influence the dynamic of social capital? The behavior of government has essential role to play in the creation and reproduction of extended trust. The trust in economic exchange couldn't be sustained without the availability of third party and impartial enforcement by the state. Hence, trust among anonymous individuals may be a function of the *moral predispositions of citizens* and their social experiences as of their trust in government institutions.

The burden of government in Serbia is many-folded. The people whom the state relied upon to serve in the implementation of reform policies were regularly the source of the state's difficulties. Many operational units deeply involved in pursuit of private gain by drawing on their positions in networks that gave them privileged access to both public and private resources.⁵ Actually, the government officials have few incentives to provide efficient third-party enforcement, if they remain members in previous networks preserved for the purpose of rent-seeking. The cadre malfeasance and opportunism poses an incorrigible problem for the state. In addition, the public perceives the continuous struggle amongst the highest representatives of government who are mutually exhibiting charges against themselves. The public belief public is that the actual condition of democracy reflected the situation of "winner-take all"-type of political struggle and the informal groups predate the government.

The transition to a market society requires continuous state engagement to establish the constitutional framework, in the sense of the underlying rules of the game, and to demonstrate a commitment and capacity to enforce them. But, despite the efforts of new government-agencies the previous business-like arrangements, and networks may play role of a protective club in relation to the new entrants. For example, the whole old financial elite remained in power with the gained personal, financial, and social power. The former financial elite displays the vast "state capture"-capacity that is associated with arbitrary submission of existing laws and regulations through which firms seek to influence the content of

⁵ For example, more than 300 controllers in bank-system were dismissed due to the corruption-practice after 2000.

specific laws and regulations to the benefit of private interest rather than the public interest.

Immediately, after the political breakthrough, the government has enforced the law that concerned the non-recurrent tax on extra income and extra property gained during the previous regime on the basis of political rent-seeking, however, the application of the law faced with difficulties, and its putting in use is over. The government didn't success to enact the anti-monopolist law for securing a relatively predictable business environment. In conformity with the data⁶ the private sector share of GDP (calculated using available statistics from both official and unofficial sources) in Serbia is the lowest amongst the countries of South-Eastern Europe.⁷

It seems that government-agencies *are not committed consequently to the rule-bound practice*. The government agencies are in charge to ensure the conditions that make possible the guarantee of the origin of arrangement. The stake of rule-bound practice is not to avoid the "catch", and sanction, but to endorse the rule-bound commitment as the focal dimension for the formal social capital.

Furthermore, the government-agencies are forced to take a direction that is focused on the short-run financial stability, and on the maintaining of fragile social stability. But the government is embedded in the social trap; let me mention a typical example. At the tax-side there is a proportional and very low-level tax regarding the total income of citizens that refers to the lack of the social dimension of tax-policy. But at the expenditure-side, there is explicit social dimension of the budget, because of the financial managing of pensions, dotations for the unemployment.⁸ In the context of stagnation or decreasing of industrial production, this solution proves to be ineffective, and loaded with different dangerous tendencies.⁹ The continuous pressure on perpetuating welfare entitlement without serious debates on principles of justice decreases the chances of finding adequate responses to post-post communist welfare challenges. The pressure to promise more and the possibility to give less undermine the credibility of government and provisions.

The deficiency of institutional capacity of government is compensating by the immediate intrusion into the business environment. For instance, the government directly intervenes by its measures into the business environment of firms that fabricate equipment or products for the final consumption, or influences the financial restructuring of the firms. The capacity of the government to intervene in society to institute a market economy is affected by its degree of autonomy and capacities. The government's ability to intervene in support of long-term policy

⁶ EBRD, (2002).

⁷ The share of private sector of GDP in Serbia is 40. In comparison, the same data in Romania displays 65.

⁸ Tax on the total income is 10% for the income above the census. This amounts to 12.000 EUR which is quite strange in the context of Serbia.

⁹ According to the data from 2002 on the industrial production is in the recession trend (MAP, 2003)

goals is weakened when either latent or manifest opposition to the policy emanates from groups that have informal access to power, and are not responsive to the public good. *This suffices to recognize the first vicious circle in Serbia: the government is overembedded in the informal social capital from the previous regime that wanes the capacity of government to enact the formal rule-bound practice of business. The weak government compensates its deficiencies by the concrete interventions at the cost of its qualitative aspects; therefore, the previous forms of informal social capital have been transformed, but in order to make themselves fit into the new, changed business surroundings.* It is on this account that the government did not subordinate successfully the informal institutions to formal institutions. Obviously, the dual system of informal and formal institutions is unavoidable. However, the limitation of government agencies, and the weaknesses of their legitimacy, makes the mentioned duality harmful. The replacement of informal institutions by more formal coordinating mechanisms is also far from complete even in the advanced market economies. However, the capacity of government agencies may be an important determinant of the speed with which formal institutions are adapted to a changing economic environment and of the role inherited informal institutions play in socioeconomic coordination.

b) **Corruption.** The corruption is the common phenomenon in the distorted system of public/private relationship and is associated with the so-called double moral. As it is repeated several times, corruption creates a costly business system.¹⁰ It drives resources to such investment opportunities, and into such sectors, which promise the highest net gain from corruptive practices, instead of directing the resources to their use as allocative efficiency would anticipate. Networks for corruption are ineffective coordination device in business. In order to protect the networks' rent-seeking powers, more and more people need to be taken in which in turn leads to actively searching for more and different opportunities. There is self-enforcement mechanism in corruption that means corruption has tendency to enhance and stabilize itself with the threat that demand for the corruption will drive the corruption-price up. The negative externalities of corruption are disseminated and undermine the dimensions of public good and the democratic accountability. In addition, the different forms of corruption turn out to be the criminalized activities as it takes place in Serbia. The existence of a large and growing shadow economy run by powerful criminal organizations has resulted in parallel institutional environments that reward and favor opportunistic and criminal behaviors. High levels of social capital within 'criminal' organizations are directed to extra-legal activities, rent seeking and high returns exclusively for those involved in such activities. As a symptom of fundamental institutional weaknesses, corruption needs to be viewed within a broader governance framework.

¹⁰ Rose-Ackerman, S. (1999), Krug, B. (1998), Argandoña, A. (2001).

The researches in Serbia make obvious the overarching corruption across the top-bottom, and bottom-up lines. Let see the data:¹¹

The public perception of corruption	
Harmful phenomenon for the society	60% of citizens
Accustomed phenomenon	28%
Necessary evil	7%
Device for the effective solution of problems	2%
Other opinions	3%

However, it is worth to mention that despite the negative evaluation of corruption 51% of citizens expressed readiness to pay the bribe for the better health-services, and 41% expressed readiness to play bribe for the gaining of employment.

Now, let see the business attitudes.¹² According to the observations of entrepreneurs the corruption plays crucial rule in 53% of mentioned cases, and more than 50% of entrepreneurs acknowledged that take a part in corruption. Furthermore, more than 50% of entrepreneurs are accustomed with the price of bribery. The public officials in more than 40% of affairs clearly demonstrated that they expect the gift, or other resources to meet the need of clients. The entrepreneurs detach by and large from 1% to 10% of their annually income for the bribery that points out the costs of corruption. 10% of entrepreneurs make use of 10-25% of their income for the bribery, and 4% of entrepreneurs give to the public officials more than 25% of their annual income. Nevertheless, these data correspond to the belief of the citizens that more than 75% of public officials are included in corruption, (according to this conviction corruption takes place especially in the customs, health offices, and police) It is worth to refer to an other research.¹³ Despite the fact that more than 55% of citizens favor the positions of entrepreneur, even 48,80% of citizens hold the opinion the entrepreneurs are connected to the political parties. In contrast to this the entrepreneurs emphasized the positive self-image regarding themselves expressing that they contribute to the well-being of society. That reveals the public perception of the channels for the upward-motion of entrepreneurs.

In accordance with the data of EBRD (2002), we could compare some dimensions amongst three countries of transition:¹⁴

¹¹ Source: Ekonomist (2001), ss.18. The research was based on the questionnaire submitted to 1600 persons.

¹² Source: ibidem. The questionnaire was submitted to 327 privately-owned firms.

¹³ Source: Pusic et al., (2002), ss. 211.

¹⁴ Share of firms in each country paying at least some bribes and kickbacks in per cent of responding firms.

Country	Share of firms paying bribe tax	Average bribe tax rate	Average bribe tax	Share of firms paying kickbacks	Average kickback tax rate	Average kickback tax
"FR Yugoslavia"	54.0	4.0	1.5	52.0	6.8	1.8
Hungary	47.6	2.4	1.0	27.6	7.6	2.1
Czech Republic	36.6	2.9	0.9	31.7	5.2	1.2

There is indication firms in Serbia undergo to the huge amount of working time that managers of the firm spend dealing with public officials concerning the application of laws and regulations.¹⁵ The amount of time spent by managers is called "time tax" in theory, and with the huge time tax the greater is the opportunity cost of complying with laws and regulations. While some cost is inevitable, very high costs can negatively affect the performance of firms and some firms may be willing to pay bribes to reduce the cost.

This data reveal several aspects:

- 1) The corruption remains endogenous, with the self-enforcement mechanisms.
- 2) The over embeddedness in corruption generates negative social learning.
- 3) There is contradiction between the publicly expressed negative evaluation of corruption, and willingness to take a part in the corruption. Many accept merit-based distribution of income and conceive of education as a legitimate basis for social differentiation, however, accepted the corruption-like practices as the device for the solution of their problems.
- 4) The "mitigation" of asynchrony between the evaluation and the actual behavior is mediated by the adaptive preferences.¹⁶

Bribe and kickback tax rates are the proportions of sales and of government contracts, respectively, paid in bribes and kickbacks averaged for all firms that made such payments. Average bribe and kickback tax are calculated as un-weighted averages of all responses, whether or not bribes and kickbacks were paid.

¹⁵ This data is one of the rare international data on Serbia (EBRD – World Bank Business Environment and Enterprise Performance Survey), The countries with the highest time taxes are Albania, Georgia and FR Yugoslavia, and those with the lowest time taxes are Czech Republic, Armenia and Azerbaijan. The time tax is correlated with the administrative corruption.

¹⁶ It is doubtful that election could be won on the basis of anti-corruption program. The public belief is that all parties are deeply involved in the corruption, hence, there is no "difference" amongst political agents, see: Gligorov, V. (2003), ss. 17.

5) The above-examined voices divide the world into the spheres of market and morality. This cleavage mirrors the split between economic and social man and its repercussions in social interactions.

It is frequently asserted the benefit from corruptive practices would decline, as would the number of people who might find it profitable to embark on such activities. Unfortunately, we could mention the second vicious circle here. *The "overadaptation" to the high corruption in the previous regime led to the change of the informal rules of the game, and generalized the unsuitable practice. The above-mentioned answers demonstrated that the transition from the high corruption to the low corruption is very costly for the individuals, and the path-dependences are at work, that means the interconnection between the demand and supply of bribe/corruption produces vicious circle.*

If there is a public perception in relation to the overwhelming corruption, the issue is who could bear the responsibility. This insight uncovers the difficulty: the thread of vicious circles could be broken by persuading the public referring to the excessive public cost of corruption. Thus, the issue is who could display these forces of persuasion, or who could convince the citizens for the democratic accountability?

c) **Trust, and confidence.** Determined by the cognitive and non-cognitive aspects, trust appears to be significant in economic actions, especially in prevailing over opportunism.¹⁷ It calls attention to the interpersonal infrastructure of economy, and points to several beneficial externalities amongst the economic agents with the mutual expectations concerning the streaming of information's, reliability, or transactions costs. The trust functions as cohesive ties that bind in the relationships, which are very often only semi-reflected and embedded in the spontaneously functioning business environment. Trust is of importance for the business formation in the context of pervasive uncertainty, and is treated as the form of social capital, which facilitates the creation of public goods.

Luhmann denotes the term "confidence" when referring to the citizen's expectations of the ability of markets or government agencies to function adequately. It is clear that his usage can be extended to cover our expectations of the ability of experts to do their job well, for example on the basis of adequate competence and skills.¹⁸ There can be strong connection between the trust, and confidence, however, in relation to the trust the evaluation of incentives, motives, and disposition of other persons matter especially. The ethical content of trust opens up the insight into the values, attitudes, and virtues of parties involved. In relation to the trust we emphasize the commitment to other party, and the situational embeddedness, for the reason that trustworthiness is placed on the concrete person. It is possible to have confidence in the ability of the competence of certain government agencies, but to doubt that same agencies would do what should be expected of them if we know their members to be corrupt.

¹⁷ Arrow, K. (1973), Dasgupta, P. (1988).

¹⁸ Luhman, N. (1988).

One may be surprised that Serbia was ranked similar to other transition countries in the international research. For instance, according to the World Value Surveys, which included 21 transition countries, the average of "trust in formal institutions" (legal system, policy, and army) in Serbia was 2,53 on a scale of 1 to 4.¹⁹ That result has showed weaker "trust" in public institution than in Poland (2, 69), but has present stronger trust in this institution than in, for example, Czech Republic (2, 26).²⁰ This is quite in common with the general tendency that in transition countries worse off politically and economically, may to have higher esteem for their own institutions.²¹ (If we continue with the conceiving of the average scores of other dimensions of trust in Serbia, it is to be noted, that concerning the ascribed and process-based trust:²²

- percentage of respondents that say trust other people was higher in comparison to the other transition countries (30.2, in contrast to average of 23.2),
- percentage of respondents that express altruistic attitudes was low (42.94 in opposition to the average of 63.08),
- Percentage of respondents that say can rely on the family (88.79, in contrast to 86.04 as average) and friends (48.28) were high.

Before the drawing of the conclusion, I would like to call attention to some aspects.

First, the confidence, and the trust in government agencies are unlikely to be constant during the sequences of transformation. We could also interpret our data as implying that the shifting-processes of the trust, and confidence is (partly) the outcome of the dynamics of political risk.

Second, we are faced with the personal/subjective perception of trust, and the configuration of social capital. The economists describe the trust on the base of repeated games, and shed light on the mutual pay-off. But, there is, always personal experience of injustice that matters at the readiness to trust to other party. The outcome of people's feeling of being treated unjustly depends on what they believe is inevitable as opposed to unfair. These ideas of people are encouraged by a culture that maintains a cognitive shelter in society. Ideologies and discourses, using the inventory of culture due to distinctive motivations, facilitate to come down hard on some causes of injustice. The general confidence in the public institutions does not necessarily tailor how people judge their actual position in a concrete social space.

¹⁹ World Values Survey (1995).

²⁰ Obviously, the high score in Serbia was mainly ensured by the high range of the position of army (2,75). But, it is to be mentioned there are even higher trust in army in Poland (3,00).

²¹ Rose, S. et al. (1998), Fidrmuc, J. (2003).

²² Transactions between members of a kinship group are "ascribed trust". Relationship between individuals who have known each other for a long time, without sharing the loyalty to a specific group is "process-based", Humphrey & H. Schmitz (1996), Hellman et al. (2000).

Third, there were several types of informal networks in Serbia, particularly in business, that bound differently. One type of informal networks gathered the people connected with previous and actual bureaucratic/political ties. The other type of informal network was created by the mighty “refugees” from the neighboring country exposed to the war, actually, by the newcomers in mother-tongue country, who were attached to the autocratic ties and designed their own networks. The third type of network deriving from the socialization in kinship, or family called by Portes as consummatory source of social capital.²³ The further kind of informal network was more loosely and instrumentally constituted and concentrated on the gaining of short-term profit by exchanging of the scarce commodity such as oil. This type of communication was often vitalized by oral contracts without any formal enforcement-mechanisms, and mostly disappeared after the collapse of the old regime. But, due to path-dependence mechanism the above-mentioned ties bond further in the transformed environment. What is essential here, it is difficult to measure these informal networks, and the forms of trust in line with these ties. The features of war and consequences of it is reliable domain for the informational networks that are almost invisible in the international research.

According to the contemporaneous data the situation refers to the perceiving of the public institutions “as the same as the previous regime”, or that “they are much worse”.²⁴ It pictures the ruling elite as lacking any well-founded concept of democracy and market economy. After the political breakthrough there is a decrease of trust in all public institution, thus, one may recognize the consequences of disappointment effect; consequently there is a general tendency for trust to decline after the structural adjustment.²⁵

	Lack of trust or little trust	Partial trust, or full trust	Hesitating	Sum
Institution of the public sector	32	46	22	100
Institution of system	39	43	18	100
Institution of government	51	57	12	100

Nevertheless, the declining of the trust and the negative evolution of public institution is in sharp contrast to the opinion of certain international organizations, (EBRD, World Bank), NGO-s, which reported on certain development in the domain of corruption-practice, and other international agents that acknowledged the

²³ Portes, A. (1998).

²⁴ The data is based on the research of Marten Board International, *Ekonomist*, (2001) ss. 30.

²⁵ Source: Center for policy studies, (2002).

unambiguous improvement in the structural adjustment. This faces us again with the personal perception of ethical dimensions of important for the trust.

Let see the data on the interpersonal trust:

Acknowledgment of the interpersonal (dis)trust (%)	
You can trust to people you get acquainted with	74
You can trust more to the citizens of Serbia than to strangers	51
You can trust to the members of your nation	37
You can trust to your relatives	31
You can trust to international organizations, for instance EU, or UN	23

Thus the interpersonal trust that gives way to a kinship, a relationship in which each person stands for the other and puts himself in the other's place is much lower than before. The growing distrust is:

- horizontal: between the members of kinship,
- vertical: between the government and the citizens.

As a general rule, the trust in the behavior of government officials is significant in determining citizens' obedience to the rule-bound practice and therefore the effectiveness of third-party enforcement. It is repeated that trust in government institutions can increase the reliability of formal institutional arrangements such as the property rights and a given

set of laws. However, in the case of Serbia, the vertical distrust refers to the lack of trust in the government that is needed to overcome opportunism by public officials and allow the government to commit to impartiality. The horizontal distrust demonstrates the lack of coordinate citizens' actions that allows the collective good of an efficient legal system to be provided. *In line with the above-mentioned dimension of the trust and distrust, we say there is tendency of distrust to be dominant.*

At the end, we can recognize the following vicious circles. The public belief of lack of incentives for government officials to provide efficient contract enforcement and admittedly the limited capacity of the state due to absent legal and administrative skills find their corollary in persistently low levels of trust in public institutions after the political breakthrough. This in turn would reinforce the difficulties of relying on formal institutions to facilitate the emergence of extended trust in formal networks, and public officials. The earlier trust within informal²⁶ networks contributes to the sluggishness of the stabilizing of formal networks, and

²⁶ Using the notion of the informality I accept the definition that informal institutions perform at the same time as constraints and opportunities, Raiser, M. (1998).

impersonal rule-bound practice. Actually, the earlier trust within informal networks is going to be weak ties.

d) ***Civic mindedness, and alertness to collective action.*** According to the data of World Values Survey the average of people in Serbia share of active participants of institutions (church, sport clubs, and charities) was lower (9,74) than the average in transition countries (12,08), and average of people share of trade unions, political parties, and professional organization was much lower (8,23) than average (19,72) in other transition countries. This data call attention to the lower rate of share of voluntary *formal networks*.

I articulated above the existence of voice during the nighties that referred to the activities in civil society, too. But the expressing of voice was correlated to certain supporters of post-communist transformation such as intellectuals (that was caused by their socio-economic position), part of entrepreneurs, and newly established business class, and the part of middle class who were affected by *relative deprivation*, unemployed, and students.²⁷ But, the paradox can be noticed: huge masses of people in need (for instance: employees in state- and socially-owned companies), and part of entrepreneurs did not join civil society actions. The existing circumstances provided benefits for managers, enabling them to convert capital into private property, because the bankrupt firms were without difficulty transformed into private ones. To cooperate is to act together in the sense following from sharing a collective goal. But, the social stratification and divergent interests in the fragmented society impeded the collective action, and demonstrated the lack of satisfactory consensus for societal transformation. The widespread abstention from civil initiatives, and civil sphere on the side of business was the consequence of struggle for survival, prevention of poverty, and the fear of the uncertain future. In addition there the Olsonian logic of collective action was at work up to the end of nighties: people even with high awareness of the inevitability of transformation, tended to not participate in joint actions when the cost of their participation was high and effect of their participation was marginal.

After the political transformation the organizational density and the overall strength of civil society is not great. Yet, the employees, and workers were in better position for the articulation of their particular interests than entrepreneurs, because they could use the organizational infrastructure of earlier period of self-management. Nowadays, more than 40% of employees and workers are members of trade unions. Next to the trade unions are the associations of citizens, and 3000 NGO-s specialized in the allocation of funds.

²⁷ According to the attitude towards socio-political change 63, 9% of unemployed, 67, 2% of intellectuals, 56, 5% accepted the democracy and capitalism, but only 20, 2% of farmers, 34, 4% pensioners, 34, 4% housewives accepted the democracy and capitalism, source Lazic, M. (1999), ss. 180, and Bolcic, S. (1999), ss. 207. This is not in contradiction with the insight of modern political economy that middle class consensus is of importance for the development features.

There is little doubt that civil engagement didn't take deep root, and the weak interest groups failed to articulate their interests. This may have negative effects in terms of development of civil society, and produce the undifferentiated map of interests. Despite the legacy of self-management, the alertness in Serbia for the civil engagement and taking a part in voluntary formal networks is low. Therefore, regardless of the existence of some forms of social capital I emphasize its unfavorable patterns; actually, there is absence of mediating agency, which translates the existing forms of social capital into collective action. Additionally, there is widespread *self-reflective public belief* that the people in Serbia are authoritarian, and enforcing the unquestioning obedience to authority.²⁸ Also, the authoritarian-patterns abate the readiness to civil engagement, and, the absence of mediating agencies makes difficult to translate social capital into collective action.

What is important, moreover, the profound political polarization of the civil society that is a common thread between the previous and the contemporaneous period. Throughout eighties the reigning political elites put their executors and beneficiaries in civil society to gain international support, and to expand the discursive power of regime. The collapse of the old regime was the direct outcome of the polarization of the NGO's, their commitment to the radical change, and *the personal union between the leading persons of NGO's and oppositional political parties*. Actually, the NGO's were the channel for the transfer, and redistribution of financial support coming from international community. Additionally, the polarization of the civil society, actually, the relocate, and displacing the political conflicts into the domains of civility, *has weakened the demarcation lines between civil society and the government sphere*.

If the question is raised whether the altering of political power I have described changed this practice of personal union, the answer would be negative. *The parties are the channels of transfers from the NGO-elite to the government elite. Thus, the lines of separation between the civil society and the political parties, and the government agencies are not clear. It may be true that this situation preselects certain civil organizations to succeed while causing others to fail. Thus, there is a lack of civil norms that help people to overcome collective action problem*. Nevertheless, the practice of personal unions gives opportunity for the vitalization of informal ties, and networks, and deteriorates the chances for democratic accountability.

²⁸ 56% of respondents in Serbia have accepted that «the majority behave accordingly by the authoritarian management». This result is different from Romania (44%), Bulgaria (34%), or Slovakia (14%). Source: Center for Policy Studies (2002).

V. 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 case of Serbia does not 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 the wide range of other informal institutions, apart from trust towards governmental bodies.

Social capital is to be interpreted as many-sided. Instead of evaluation the homogenized social capital, I examined 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 does not automatically aggregate to result in better performance for countries. Pointing to certain vicious circles, I emphasized that there is high social capital within 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 over-embeddedness 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.

The social capital determines the conditions of business in the broad sense, with moral commitments and thus has "framing effects". Also, the social capital refers to the participation in the community that gives sense, distinguishes this community bestowing its members with the orientations in practical life. However, certain issues remain.

First, the matter at issue is the accessibility of the forms of social capital to all member of community. In spite of this, the analysis of social capital in Serbia demonstrated the strained relations between the social capital as a pure and as an impure public good. There are aspects of social capital in Serbia that reflect the logic of club, that is the use of this collective good is restricted to the members of club. If the social capital is dispersed in several closed clubs, it is to be expected the conflict between certain forms of social capital, and the common good.

Second, communities work because they are good at enforcing the norms, but reconsidering the perspective of business ethics, however, we should put the question the fairness, goodness of these norms, and what the norms are. The evolution of cooperation suggests that social norms will not necessarily evolve

efficiently. As it is argued, several equilibrium are possible, when there are both agents with and without a moral predisposition to cooperate. There is not unambiguous relationship between the dimensions of social capital, and the business performances, consequently the business ethics is faced with the task to think further, and provides *normative measure* in regard to the social capital. What sorts of norms are associated with which types of networks can not be assumed in advance but it must be verified contextually.

I have demonstrated the transformations of the forms social capital in Serbia, but the social capital did not proved to be independent factor for the explanation of business environment. Let me voice a theoretical conclusion. Dense social networks are not enough to achieve more acceptable business-practice. "Associationism," is "a *neutral multiplier*" (Krishna), and this insight calls for the ethical questioning of existing institution of business practice based on the forms of social capital. The trust or social capital may have positive and negative social consequences.²⁹ *The analysis of social capital is to be practicized as values-based inquiry where normative and descriptive elements are inter-mingled.* Thus, the meanings of social capital could serve as the variable on reconsidering the human conduct in society or toward other human beings as members of social institutions.

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²⁹ See the analysis of Rose-Ackerman, S. in relation to the other post-socialist countries (2001), ss. 417.

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Summary

This is the second part of the paper that is presented at the conference of EBEN 29-31.2003. In this part of paper I am dealing with the constellation in Serbia after 2000. I take certain dimensions of social capital (civil mindedness, readiness to react to the corruption in business practice etc.) and analyze their positions in the business-context in Serbia. This experience confirms that it is not enough to take into account the formal productive sector in treating the dynamics of social capital. The paper calls for the careful weighing of the impact of social capital on the transformation of meaning of business. It is necessary to avoid the trap that there is direct causal relationship between rich social capital and market-based coordination. 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. The overembeddedness in the previous form of informal social capital may appear as hindrance for the developing of the formal social capital.

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