

Ljubomir Madžar
Institute of Strategic Studies and
Development "Petar Karić"
Alpha University
Belgrade

ME AGAINST THEM: A DECISIVE SETTLING OF ACCOUNTS – THE PERILS OF OVERSIZED GOVERNMENTAL INTERFERENCE (PART TWO)

Moj obračun s njima – pošast preteranog državnog
intervencionizma (drugi deo)

Abstract

In the analysis of the choice of the regulating mechanisms, containing various ingredients of market and government, the usual fallacy is pointed out consisting of the belief that, wherever the market fails, government is automatically flawless and able to overcome the failures. The real situation is the one of the choice among the mechanisms which are all fraught with their own deficiencies and the comparative analysis is called for to enable the selection of the least among several evils. Government failures are examined to some detail. Several dilemmas connected to the present crisis of the world economy are discussed. The two most marked among them are about the origins and the initiators of the crisis – is it caused by the market's inherent deficiencies or by poorly concocted governmental policies – and about what to do about the crisis – should governments intervene as they did, with much bailing out the agents from dramatic situations caused (at least partly) by their own mistakes, or should they let markets alone to work themselves out and eventually lead the economies onto the paths of stable and sustainable development. The arguments favoring the both sides of the dilemmas brought out are discussed in detail, but the general inclination of this author is towards the markets. This inclination is due to doubts in governments' willingness and ability to act properly in the times of crises (and otherwise), with some space devoted to these doubts.

The myth of deregulation is discussed to some length and it is underlined that the overregulation is a part of contemporary economic realities. Tens of thousands of pages of new regulation are annually added to the existing stock of rules in various entities (the USA, the EU, individual countries). Overregulation has become a grave hazard to the economy on a planetary scale, as the institutional arrangements arising from it become as bulky and complex as to turn unmanageable. The instances are cited about the authors of various regulating acts

not being able to understand the texts formalizing the regulation. The consequences of the huge regulating machinery based on those tens of thousands pages of newly created texts are literally unpredictable. One unintended consequence is structural distortion of the economy: new regulation and the one accumulated in the past and still valid is almost impossible to follow; the large firms find it easier to carry out that challenging task, occasionally by creating specialized departments, but for the smaller firms that fixed cost is more and more difficult to bear. A bias against the small firms is introduced. How is an economy to avail itself of the large firms if – and to the extent that – they have to be small before they grow?

The mind of the general public, and even the professional mind, is hopelessly contaminated. A representative work of a renowned German sociologist is analyzed as an appropriate example. He takes it as perfectly reasonable to have two parallel and equivalent distribution mechanisms: the one based on the market and based on the principle that everyone obtains what he produces, i.e. what he constructively offers to the society; the other based on citizen's "rights" empowering the individual to appropriate income independently of his productive contributions. When are these left-wingers going to learn that there is no long run hope for any system in which what one gets is not sufficiently tightly connected with what one produces and thereby contributes to the satisfaction of the needs of others?

There is a basic contradiction among the ranks of the *AL*. On the one hand, they extensively and intensely criticize governments, not even allowing for the objective constraints that they are facing; on the other, they ask for more and more of its intervention. Their answer to this criticism is that they have in mind an entirely different government: honest, uncorrupted and, at long last, efficient. Any attempt to explain to them that good governments are not that easy to come by and that it may take decades to get hold of a solid government – proved unsuccessful

and vain. The AL has a strong aversion towards the L. But they never take effort to define what to them mean the words liberal and liberalism. Nobody knows what they mean when using them. That “enables” them to ascribe to the L all evils of this world. Thus, international domination of the strong over the smaller and weaker states, aggressions and wars, the “disastrous” influence of international financial organizations...all these are described as genuine products of so called neoliberalism. They can throw all perversions at the front door of the liberal order and the liberal way of thinking because they don’t know what the word liberal means. If they knew that the basic values on which liberalism is based are life, freedom and private ownership, they could not go on with such senseless accusations. Let this summary be concluded by a jewel thrown at an audience assembled in Andrićgrad September 12, 2014: neoliberalism is a market for war and death!

Key words: *liberalism, antiliberalism, market vs. government, government failures, institutional constraints, economic policies, economic and financial crisis, moral hazard, the limits of government interference, (re)distribution as a constraining growth factor*

Sažetak

U analizi izbora između regulativnih mehanizama, takvih koji sadrže različite sastojke tržišta i državne intervencije, istaknuta je uobičajena zabluda koja se sastoji u uverenju da, kad god tržište pokaže slabosti, država je automatski delotvorna i sposobna da te nedostatke prevaziđe. Prava situacija je u znaku izbora između mehanizama od kojih je svaki opterećen svojim sopstvenim manjkavostima i stoga je potrebna komparativna analiza da bi se omogućio izbor (naj)manjeg od nekoliko zala. Defekti države ispitivani su donekle detaljno. Raspravljane su neke dileme povezane sa sadašnjom krizom svetske privrede. Dve najmarkantnije među njima se odnose na poreklo i inicijatore krize – da li je izazvana inherentnim defektima tržišta ili loše sklopljenim državnim politikama – i na ono što bi u vezi sa krizom trebalo preduzeti – treba li da vlade intervišu kao što su to i činile, uz masovno spasavanje aktera iz dramatičnih situacija izazvanih (bar jednim delom) njihovim sopstvenim greškama, ili je bolje da puste tržišta na miru da se istutnje i eventualno odvedu privrede na trajektorije stabilnog i održivog rasta. Donekle detaljno pretreseni su argumenti izneseni u prilog i jedne i druge strane ovih dilema, ali opšta orijentacija ovog autora ide u prilog tržišta. Ova sklonost je posledica sumnji u spremnost i sposobnost vlada da prikladno postupaju u kriznim vremenima (a i inače), pa je nešto prostora posvećeno tim sumnjama.

Mit o deregulaciji raspravljen je prilično detaljno i istaknuto je da je preterana regulacija deo savremene ekonomske stvarnosti. Desetine hiljada stranica nove regulacije godišnje se dodaje postojećem fondu pravila u raznim entitetima (SAD, EU, pojedinačne zemlje). Preterana regulacija postala je poguban ekonomski hazard na planetarnom nivou, budući da institucionalni aranžmani koji izrastaju iz nje postaju tako glomazni i složeni da se ispostavljaju kao neupravljivi. Navode se primeri kad autori raznih regulativnih dokumenata nisu u stanju da razumeju tekstove kojima je regulacija formalizovana. Posledice te glomazne regulatorne mašinerije zasnovane na desetinama hiljada novostvorenih tekstova doslovno su nepredvidive. Jedna od nenameranih posledica je strukturna deformacija privrede: nova regulativa, kao i ona akumulirana u prošlosti

a još važeća, gotovo da ne može da se prati; krupna preduzeća mogu lakše savladavati taj izazovni zadatak, pokadšto stvarajući specijalizovana odeljenja, ali manje firme daleko teže mogu da podnesu taj fiksni trošak. Tako je ugrađen uklon protiv malih firmi. Kako jedna privreda može doći do velikih firmi ako – i u meri u kojoj – one moraju da budu male pre nego što izrastu u velike?

Svest najšire javnosti, i čak profesionalna svest, beznačajno je kontaminirana. Analiziran je jedan reprezentativni tekst poznatog nemačkog sociologa kao prikladan primer. Za njega je savršeno razumno da postoje dva paralelna i ravnopravna sistema raspodele: jedan zasnovan na tržištu i na principu da svako prisvaja ono što i proizvede, tj. što konstruktivno nudi društvu; drugi zasnovan na „pravima“ građanina koja pojedinca ovlašćuju da učestvuje u raspodeli nezavisno od svog proizvodnog doprinosa. Kad će ovi levičari najzad naučiti da na dugi rok nema nade za bilo koji sistem u kome ono što neko dobija nije dovoljno čvrsto povezano sa onim što on proizvodi i tako doprinosi zadovoljavanju potreba (svih) drugih?

U redovima AL postoji jedna temeljna protivrečnost. S jedne strane, oni naširoko i snažno kritikuju vlade, čak i ne uvažavajući objektivna ograničenja sa kojima se suočavaju, a s druge traže sve više i više državne intervencije. Njihov odgovor na ovu kritiku jeste da imaju na umu potpuno drukčiju vladu: poštenju, nekorumpiranu i, na kraju, efikasnu. Neuspešan i zaludan biva svaki pokušaj da im se objasni da se do dobrih vlada ne stiže tako lako i da mogu da budu potrebne decenije da se društvo dočepa valjane vlade. AL imaju prema L jaku averziju. Ali nikad se ne potrudu da preciziraju šta za njih znače reči liberal(no) i liberalizam. Niko zapravo ne zna na šta oni misle kad te reči koriste. To im „omogućava“ da L-u pripisuju sva zla ovog sveta. Tako npr. međunarodna dominacija jakih država nad manjim i slabijim, agresije i ratovi, „pogibeljni“ uticaj međunarodnih finansijskih organizacija...sve to je opisano kao bokor autentičnih produkata tzv. neoliberalizma. Oni sve opačine mogu da istovare pred vrata liberalnog poretka i liberalne misli jer ne znaju šta znači reč liberal(no). Kad bi znali da su osnovne vrednosti na kojima se temelji liberalizam život, sloboda i privatna svojina, ne bi mogli da nastavljaju sa takvim besmislenim optužbama. Neka ovaj rezime bude zaključen jednim biserom izbačenim širem auditorijumu koji se sastao u Andrićgradu 12. septembra 2014: neoliberalizam je tržište rata i smrti!

Ključne reči: *liberalizam, antiliberalizam, tržište naspram države, manjkavosti države, institucionalna ograničenja, ekonomska politika, ekonomska i finansijska kriza, moralni hazard, granice državnog uplitanja, (pre)raspodela kao ograničavajući činilac rasta*

The potential and limitations of stabilization policies

If it were certain that (1) stabilization policies would be unquestionably successful in attempts to curb and control grave turmoil in the midst of the deep crises, and (2) opportunity and other costs of such interventions would be less than the effects achieved in combating depressions –

nobody in his right mind would be against macroeconomic stabilization policies. However, interventions could turn out ill-advised and deepen the crises rather than suppressing them. The interventions always affect and change macroeconomic flows which, in fact, would also change in some way without them. Honestly speaking, when one carefully observes the set of economic trends and their shifts, one is most of the time unable to diagnose for certain whether the changes happened due to or despite the given governmental stabilization attempts. The doubts are additionally augmented by taking into account that the governments are hard pressed to intervene immediately, before the breaks in economic trends are properly understood, and quick measures are to be taken in a situation requiring careful and long study.

The nature of the entire set-up is such that governments are urged and forced to intervene in the most complex and least understood economic situations and free of the pressures to act in an anticipatory way in (more) normal situations when there is much more time for preparing the actions and when the risks and cost of intervening are much lower. This is a permanent feature of the grand system of the economy-cum-government making for inefficiency and a low probability of success of the governmental interventions taken in their entirety. There are tremendous and, as it looks, legitimate disagreements in assessing the appropriateness of a large collection of governmental interventions taken in connection with the crisis of 2008 and carried out up to the present day (end of 2014) practically the world over. A large stream within economic profession claim that the governmental stabilizing actions were essential and soul saving; their tremendous social utility stems from the alleged fact that without them the entire system would fall apart, their effect – so it is claimed – is life saving and civilization preserving.

The other stream of professionals, perhaps equally strong and influential, come up with the contention that the entire interfering into otherwise self-regulating market system was a huge blunder owing to the incomplete knowledge or even to complete ignorance of mechanisms producing deviations from steady-state movements. As a good deal of these deviations is to some extent due to the business mistakes of the economic agents, such interventions

bail out the “sinners” and produce a long-run systemic deficiency in the form of moral hazard. Knowing that the state is ready to step in to bail them out, they will go on with their overly risky and irresponsible behavior. The long-run social cost of intervention is therefore much higher than the purported benefits even though the benefits may outweigh in the short(er) run. This fits nicely into the well known and quite persuasive, empirically supported theory that the decision-making horizon of politicians is short and that what matters to them is what happens within their mandate. The crown argument of this critical approach to governmental interference is that governments with their policies go in for alleviating or solving the problems which they themselves have created.

The differences in opinion should not come as a surprise. The situations which are the subject matter of the analysis are exceedingly complex and contain many complicated, frequently partly hidden facets. Concentrating on one facet may understandably and legitimately lead to vastly differing conclusions compared to the ones derivable from concentrating on the other facet. And the choice of the facet is partly a matter of understanding and intellectual capacity and partly due to more or less direct interests which tend to be clearly differentiated at all levels of intermediation. It is probably true that our understanding and accompanying analytical capacity tends to be affected by interests; we study more carefully and perhaps more successfully matter to which we are associated by some sort of interest. Needless to say, the *AL* tend to adopt a proactive stance when it comes down to assessing the desirability of the governmental intervention, while the *L* mostly reject it pointing to frequently neglected but huge future costs, mostly pushed into the more distant future periods, driven by the logic of the inescapable political opportunism.

In analyzing the crises much attention is directed to regulation and deregulation. The *AL* claim that the principal contributor to the crisis is massive and, in their view, irresponsible deregulation which has provided room for the anarchy of the markets (this sounds quite Marxian!) and given impulses to destructive speculations which, in turn, had shaken the system as a whole, and, indeed, from the very foundations. The *L* has several ripostes to these

diagnoses. They are to be described here with certain enthusiasm, as they seem shrewd and convincing to this writer. To begin with, deregulation is denied to be a part of economic reality and to have happened any time in the past. The hundreds of thousands of pages of various laws, by-laws, directives and other regulations are cited as a conspicuous part of the regulative reality. There has not been such a thing as a deregulation [17, p. 71] and, moreover, the huge and cumbersome regulation is brought out as a principal generator of the crisis [17, p. 76].

More than that, to the extent that crisis was initiated and driven by the behavior of the market agents, such behavior was caused by the ill-advised and deficient motivating arrangements created by overextended and distorted regulation [17, p. 76]. The key culprit of the crises is the state which now takes appearance of some sort of a savior by attempting, not very successfully, to correct its own mistakes. Besides constraining the entrepreneurs and other economic agents, the excessive regulation homogenizes the behavior of the regulated making them respond quite similarly and often identically to external shocks. This introduces uniformity of behavior into the system as a whole and makes it akin to the centrally planned economies. In reacting to the exogenous shocks such heavily regulated systems tend to overdo to whichever shock they respond. That makes them extremely unstable and prone to big crashes. The probability of hazards is significantly increased [17, p. 82]. Moreover, it is in the nature of the system that excessive and inappropriate regulation is recognized too late, when it is also late to undertake the appropriate measures, to the extent that the state is at all capable of devising such measures [17, p. 79].

To these *Tasić's* convincing arguments still other can be added. First of all and generally speaking, the turmoil brought by crises is too big to be produced by smaller players. Such a big disturbance can ultimately be generated only by a very big, the biggest player, and that can only be the state. It is true that multitudes of much smaller market agents adjust to such big state-produced shifts, exacerbating the tumults, but the initial impulse comes from the governmental moves. Secondly, by whatever motives the state intervention may be inspired, it is always selective: it only affects certain, individual

segments or affects all of them but in different ways. In both cases the market agents are affected in different ways, they are put into unequal positions and made to respond in differentiated ways. All this leads to misallocation of resources and moves the entire economic system onto lower levels of the overall performance. Opportunity cost of the lost GDP is the cost of the governmental intervention even if it is directed to stabilizing the perturbed economy. Thirdly, the state itself is undergoing its own endogenous cycles, including the electoral cycles and those generated by inconsistent and indecisive responses to external parametric shifts, which turns out to be the way in which the economy is unceasingly perturbed. Unsteadiness of the state's handling of the economy partly derives from the fact that certain objectives of governmental policies are more fully and more effectively realized by surprising economic agents and undertaking steps that cannot be foreseen by the public. Among the major generators of the crises one can certainly recognize what a number of writers call regulatory confusion: the legal and administrative acts, various ordinances and directives are so numerous, so complex and to such a degree interrelated that the public finds them exceedingly hard even to understand, not to speak about learning them so thoroughly as to be able to apply them consistently and unmistakably. There are quite a few reports about the authors of the regulations themselves not being able to understand the larger complexes of messy documents by which they attempted to streamline various segments of economic life (see the indicative and truly enlightening statement by *Bernanke* cited in [17, p. 147]). Attempts are made to rectify the errors in regulation by creating new regulation, which the entire field makes even more hopeless. The steadily growing amount of regulatory measures and acts becomes more and more difficult just to follow and imposes growing following costs; these are particularly burdensome for the small firms as the large firms can create specialized departments for following of the new deepening the understanding of the old regulation. This has produced a bias in the position of firms, with larger forms enjoying obvious advantage. The end result is a strange and unanticipated phenomenon of the economies of scale, with obvious distortion of the scale structure of

the economy and equally harmful effects on the allocation of resources. Fourthly, one could speak about regulatory hysteresis of sorts: large chunks of regulations seem to be taking on the features of a one-way street – once introduced into the system, they cannot be recalled. The guillotine of regulations, so loudly and insistently announced, never was put into operation properly. Fifthly, regulatory measures and corresponding legal and administrative acts, being defined as number or quantity per unit of time, have the character of a flow in the sense of quantitative economics; the total amount of regulatory acts, presented on the above emphasized thousands of pages, has the character of a stock. As current economic activities, through which the GDP and related aggregates are generated, naturally have the character of flows, it is an arithmetic necessity that the mass of regulatory documents per unit of newly generated economic aggregates is bound to increase. The intensity of the stream of generation of regulatory documents can certainly vary from one time interval to another, but as long as the number of newly added acts (net of those which are retired) is positive, the amount and burden of regulation of necessity increase. Speaking about deregulation, particularly the excessive one, runs into the problems of simple arithmetic – for obvious reasons it cannot be true. Sixthly, the waves of deregulation, to the extent that one can speak of them meaningfully, don't come out of the blue; more often than not they are responses to the overextended and hopelessly inefficient regulation; if the regulation were workable as anticipated, deregulatory waves would not have a chance. Seventhly, both regulation and deregulation are parts of the governmental policy; if anything goes wrong with either of them, government is to be blamed for both. Is it realistic to expect the government to be successful in proposed regulatory moves if it had allegedly been disastrously unsuccessful in performing massive deregulatory moves? This can be a legitimate subject of polemical discussions, but there remains something to the implied asymmetry of the governmental efficiency in two opposite ways in varying the pool of regulatory devices. In any case, bad regulation inspires deregulatory campaigns, but unfavorable experiences with deregulation lead to new turnarounds to more comprehensive regulation. One

reason for these turnabouts is that the existing working solution is implemented in practice and as such has shown its deficiencies; the alternative solution is still in the stage of an idealized blueprint and always looks more attractive than the currently operating thing. This appears to be one more source of shocks which governments with their interventionist activities administer to the economy. Eighthly, it is not easy to regulate a steadily changing economy, with the rhythm of changes becoming ever quicker; this comes out equivalent to shooting an accelerating moving target. Namely, technical progress creates new structures of the rising complexity in the economy and market agents daily invent new and again ever more complicated instruments. These are hard even to understand, not to speak about able to control and steer the bulky and highly interdependent complexes arising therefrom. Can regulatory authorities hope to come to grips successfully with these challenging tasks? The suggestion *noli movere* should not be received as bizarre in this context: life solves many problems more successfully than any attempts to interfere directly into the structure of the things involved: a gardener produces large quantities of the first class fruits without trying to assemble them molecule by molecule, possibly using huge microscopes and minute, invisible tools; providing the necessary humidity, temperature and illumination is enough, the rest is done by nature and its automatic, elemental processes. The same goes for the economy: what economic science and policy are unable to master, and even to understand, “nature” will perform in a satisfactory way, without us not even being able to understand fully what is exactly going on in these mysterious transformations. And tenthly at last: because of the massive and insurmountable regulation it becomes next to impossible to recognize, comprehend and measure its effects and to perceive it. The end result is that such priorities are very difficult to identify and that some truly needed regulatory activities fail to be undertaken. Thus, insufficient and inadequate regulation in some, perhaps even important, fields comes out as a consequence of the overextended, bulky and dysfunctional overall regulation. The bizarre finding is that overextended regulation comes to be seen as a cause of insufficient regulation in the areas where it could be badly needed.

Further issues associated with the role of the state: The inescapable controversies

The state and governmental machinery with associated set of public policies is one set of institutional arrangements for satisfying the needs of the society. The other is the collection of markets with accompanying adjustment mechanisms. There is a fundamental difference between the two with far-ranging and truly significant implications. The market is an arrangement on which individuals directly choose and without any intermediation decide what items to pick out and on what commodities and services to spend their available income. This immediacy is of crucial importance. It implies that connection between the satisfaction of needs and allocation of resources is as direct as it can possibly be. The government and its policies are basically different in that important direction. In the governmental machinery the authorized agents use – to utilize once again *Friedman's* happily invented pun – the other people's money to satisfy still other people's needs. These big, general collective decisions refer to equally big and general social needs and are greatly removed from the needs as revealed by the multitude of individuals in a society.

This deeply seated difference between the two arrangements – direct satisfaction of needs vs. collectivized, generalized and necessarily politicized use and disposition of money – is lasting, unbridgeable and with such qualitative properties that can never be relativized by any compensatory allocative adjustments. This is not to say that collective arrangements for use and allocation of resources can or need be dispensed with – far from that – but it does mean that any expansion of government at the expense of the market carries with it grave hazards of politicized and bureaucratic alienation of the use of resources from the genuine need as felt and expressed by the concerned individuals themselves. While elaborating this fundamental issue, the well known deficiencies of the market are not ignored. However, these are phenomena and variations of the second (third?!) order of magnitude and cannot wipe out the basic contrast between direct (on the market) and markedly indirect and roundabout (the state) satisfaction of needs. After all, one should not forget that the theory of market failure is *not* devel-

oped in the camp of antiliberal thinkers but by neoclassical thought which, true, does not coincide with liberal theory in all of its streams, but is very close to this theory and, in any case, incomparably closer than to the antiliberal *Weltanschauung*.

When thinking about pros and cons of governmental role in allocating resources and perhaps steering economic development, one should not forget another fundamental truth about likely attributes of political and administrative behavior characterizing the governmental machinery. Whatever the conceptual formalization of social needs – and it is well known that the toolkit of social preferences and welfare functions is not particularly happy or successful – government with its peculiar objectives and lasting idiosyncrasies cannot be taken as institution primarily oriented towards satisfaction of social needs, say as represented by some sort of social welfare function. Behind any government there is unavoidable political authority which is particularly, in an inescapably peculiar way, placed in relation to the electoral body for whose approval and support it persistently fights. The political parties carry out these fights by endeavoring to maximize the number of votes at the coming elections. Governmental objective function – maximizing the number of votes – is vastly different from maximizing whatever welfare function may be selected as a representation of “social needs” [2, pp. 96-113], [2, pp. 164-204]. The government tries to achieve its goals by offering short term benefits at the expense of the long term effects, its decision making horizon is notoriously short and squeezed into the set of election cycles, and in the most untoward way at that. Political forces which fight for electoral survival, by doing what is best for them, do not behave in accordance with the best interests of the “society”. This important point cannot simply be overemphasized. It bears repeating: what is good for political authority is not good for the society, whatever the way of defining the latter's interests. This should be the justification, and even a logically impeccable proof, for the general presumption against big government and a clear warning for the need to ward against its excessive, unhealthy growth.

Discretionary decision making on the part of the government is a grave danger for the society at large. Both

theoretical analyses, with accompanying formalization through models, and massive empirical evidence point to the perilous dangers of governmental abuse. The real constraint on the government's discretion is the rule of law which makes regulation of social relationships and interactions universal and equal to all, eliminating possibilities of discrimination at the basic, elementary level of determining principles. The rule of law implies that the citizens are free to undertake whatever is not prohibited by law and the state agencies are permitted to do only what is strictly prescribed and provided for by the law. That the rule of law is the right approach to regulating social relations is easier said than done. It takes decades and in some aspects even centuries to build institutional structures which make it possible for the rule of law to prevail.

The institutionally undeveloped societies are far from having such structures and enjoying the benefits of their functioning. As a grossly imperfect substitute they have "great" leaders. Societies based on the role and the functions of the leaders do not offer political and social environments for affirming, preserving and further developing civic and other freedoms. Societies based on leaders predictably and unavoidably develop rigid hierarchies. In such societies the citizens are not governed by neutral, objective rules equally applicable to everybody, but are instead ruled by other individuals. The command system, which is adverse to freedom as a matter of principle, inescapably prevails in such societies. With liberty circumscribed and personal uncertainty hypertrophied, such societies are not able to fully utilize and develop available human potential, their growth prospects are compellingly curtailed. Even if economic development comes to be accelerated for some time, it turns out to be unsustainable as the society remains deprived of momentum of motivation of free individuals and entrepreneurial propensity to venturing, combined with inventions, emanating therefrom. Without governing by neutral and undiscriminating rules, with overriding personal discretion, the uncertainty of life and property becomes a universally permeating invariant of social life, with loss of life and dignity as a foreseeable consequence. Nobody is certain in such societies, not even those occupying the

highest places in the governing hierarchy; the highly placed individuals become distrustful of each other and physical extermination becomes a usual way of preserving one's earthly existence. Routine killings and various kinds of purges become a lasting component of social reality. Particularly hazardous are changes of personnel at the highest levels of the governing pyramid: political shocks generate tremendous disturbances and huge costs to the society. Contrary to this, the rule of law provides for peaceful, comfortable and secure life, allowing people to make their own choices and thereby contribute their maximum to the development of the society as a whole. Needless to say, the *AL* and *L* have vastly differing attitudes toward the governance by rules and the one by leaders and associated highly placed "cadres": the *AL* insists much less, if at all, on the rule of law and shows a sort of affinity, investing a lot of hope, into the "great leaders".

The measures leading to the overextending the role of the state move the society away from the rule of law and bring it closer to the rule of men by men. Such changes are bad enough by themselves, but they generate further untoward effects. The bigger government tends to be the more intensely intervening government, and, as any governmental interference – without capability of being neutral, as that would deprive it of its rationale – tends by its very nature to be selective, it differentiates the market position of economic subjects and introduces deformations into the allocation of resources. Selectivity of intervention can lead to formation of coalitions of rent seeking and rent appropriating agents which may lead further to the perverted growth of government making for exploitative rather than value creating arrangements. Such governments are prone to indulge into massive redistributive activities demotivating the producers both at the receiving and the expropriating end of this pathologically deformed, coercive relation. Due to the growing command over real and, particularly, financial resources, the incumbent government becomes too strong *vis-à-vis* its political opposition and more difficult to replace; such rigidity of the political system generates a kind of political monopoly of the incumbent parties, leading to overgrowth of their power, reducing the pressure

on them to act responsibly and augmenting the room for further abuses of the state authority. Big government is a big political hazard and equally pernicious economic danger and cause of waste.

Some further controversies on the role of government and the “liberal” character of economic policies in Serbia

The source of grave risks is what a rapidly growing government tries to achieve as a complex of so called social policies. Governments make use of them to grow more quickly and more comfortably, easily justifying their appropriative actions before the voting public. There are several dangers emanating from governmental endeavors to be “more social”. Firstly, an overextended government is a weak government due to the fact that its limited administrative capacity is stretched over a large front; due to that, the government is unable to target the social assistance properly, so that many well to do citizens get hold of a good deal of so redistributed income. Secondly, by acquiring command over large quantities of resources to be used as social support to the needy, the government appropriates a large part of what is to be redistributed to itself, expanding thus its bureaucracy and the coercive mechanisms. Thirdly, by taking large and growing parts of income to itself, the government saps the economy of its growth potential and lowers the rate of growth; this is a mechanism through which the entire society becomes worse off in a somewhat longer perspective, including the needy for the sake of whom the entire redistributive confiscation is putatively undertaken; the only ultimate beneficiaries are the governmental circles and political elites, accompanied by public bureaucracy, who perform this drastic expropriation. And, at last, fourthly, the overly strengthened government and political parties behind it become able to pursue their particularistic goals, avoiding reforms and preventing institutional modernization; the end result is petrifying of the extant institutions, keeping the economy at the suboptimal, inferior growth trajectory and predetermining the society to suffer low income and lasting deprivation, including the loss of face in the international arena.

The confusion on the account of redistributive expropriations of income and the role of government in their execution is truly amazing. As an illustration, a newly published paper by a renowned German sociologist [16] is analyzed to some length. The big point is that he examines the mechanisms of the market determined distribution and the government imposed fiscal and administrative redistribution as equally legitimate and naturally acceptable distributive arrangements! He may be right in analyzing the factual relations and trends in this sensitive and highly distorted area. But he is inexplicably wrong in treating these two arrangements as equivalent in a normative perspective. Appropriating the value which one has created in the market, by satisfying the needs of his consumers, is completely coequal and equipollent to him as expropriating income created by others, resorting thereby to the coercive state actions. Not a single word about ethical perversity of such confiscations and the obvious injustice of developing skills to take hold of what others are creating rather than producing income through own work, inventiveness and entrepreneurship. He discusses these economically groundless unilateral takes in complete oblivion of the strong disincentive effects of such arbitrary reshufflings of income the demotivating consequences of which are bound to reduce greatly the development potential of the economy, with all of society falling because of that to much lower levels of income and – how ever defined – social welfare. Contamination of mind and, as a consequence, social consciousness seems to have become an incurable malaise of contemporary civilization.

The story of market failures has been developed into a handy myth “justifying” various kinds of governmental dysfunctional interference which cause grave damages in allocation and production. To begin with, the state intervention directed towards “eliminating” market failures may contain much more serious failures of its own. The assumption of a flawless policy intervention directed towards cleansing the market of its failures is far from being warranted. It is also true that the same intervention, while eventually removing some failures, may create new ones, occasionally more damaging. In addition to this, interventions are costly. In addition

to the direct financial costs covered out of tax receipts, there are allocation costs induced by distortions of the motivation structure caused by such spending itself as well as (additional) taxation. Another, still additional, component of costs is caused by the fact that most of these interventions introduce additional constraints into the system which clearly shift production and other desiderata onto the lower levels. Much of what is undesirable happens outside the scope of the objectives envisaged in the stage of planning these interventions. The motivation structure is typically (though unintentionally) distorted through such interventions, which is also a source of costs. Moreover, the business orientation and the entrepreneurial energies are dysfunctionally shifted from productive to the rent seeking and other redistributive gains. Exploitative moves grow in importance compared to constructive productive initiatives. A moral hazard failure is also developed by redistributive skewed interventions: the market agents learn to expect similar interventions in the future and adjust their behavior accordingly, seeking opportunistically to appropriate income created by others.

Many of the described actions of economic policy amount to genuine acts of governmental warfare over the economy. The interventions call for tax increases and, when spending occurs, private investment is crowded out. The spending itself is a manifestation of expansionary fiscal policy which, in combination with frequent accompanying restrictive monetary policy, results in high interest rates and discourages private investment on that account, too. Such uplifted interest rate, as a factor price, occasionally in combination with appreciated currency, as was and still is the case in Serbia, gives a distorted overall price system as a result; this turns out a way of crippling the entire market and making it far less efficient than it would otherwise be. The policy of subsidizing a substantial number of sectors and of the groups of enterprises (the so called firms under restructuring, so conspicuous in Serbia) distorts the market in still another way. A little less than a half of the GDP of Serbia is subject to the price controls: what more severe dislocation of the market can be imagined? The labor market, the mechanism determining wage and visibly affecting salaries, still another important factor price, was badly deformed by

perverted and senseless legislation; only lately have steps been taken to rectify these contortions. The legal prohibition to adjust employment to the changing market conditions reduced greatly competitiveness of the local firms and, through their increased mortality, additionally deducted a noticeable number of jobs. Inconsistencies and volatility of economic policies created perilous uncertainties and crippled the economy through this channel, too. One should remember that markets are in many segments inherently unstable [7, p. 16], [7, p. 135] and that unnecessary shocks of economic policy cause large but avoidable losses and costs to the economy. What to say about illiquidity and the lack of protection of contracts? It has long been more difficult to collect the receivables than to produce and deliver goods. With such lack of paying discipline the market is literally annihilated. While indulging into far-fetched redistributive and other harmful activities, the government fails to perform one of its most important functions. Can one expect an efficient action in enforcing the paying discipline from a government which itself has more than one billion euros of arrears towards economy? One does not need much imagination to see how much harm this one government failure has done to the economy. While doing what it is not supposed to do, or rather what it is supposed not to do, the state misses on what its truly crucial functions are.

Subsidies are a special chapter in the long list of government failures in Serbia. To begin with, why subsidies at all? Despite considerable efforts, not a single sound microeconomic justification for the type of subsidies distributed in Serbia could be found. If the given entrepreneurial option is profitable, the investor should be interested in it without subsidies; if it is unprofitable, investment should not be undertaken on it anyway. Do we need investments which are to be undertaken only if subsidized and what will happen to the resulting establishments once subsidies cease to produce their effects? Clearly, investments induced by subsidies may be profitable politically, but economically they certainly offer no hope. Subsidies clearly differentiate the business conditions and, by putting various producers into unequal position, produce grave mistakes in the allocation of resources. Illiquidity, inefficient judicial system, lengthy

and morally exhausting administrative procedures, the over indebted government on the verge of bankruptcy... and what not are parts of what everyone calls unfavorable business environment. Instead of intensely working on improving this environment, which is the task of the government, it has made itself busy with subsidies and other redistributive abuses, which is neither its task nor function.

Yet, one legitimate reason may be found for government stepping in to spurt on investments. Because of the lack of really working capital market and marked scarcity of credit, caused, among other, by the government's failure to improve the business environment, there may exist attractive investment opportunities which, because of the lack of finance, may go unutilized. There is some work here for government to perform. But it does not have to be in the form of subsidies; the granting of credits can perfectly fit. If the given entrepreneurial option is truly attractive, it should turn natural and convenient for the firm to take credit and to pay it off out of future proceeds.

Much of what is expounded here the *AL* doesn't understand. For some reasons they believe that economic policy in Serbia is conducted in accordance with the spirit of liberal teachings. The true state of affairs is exactly the opposite. Price controls, appreciation, legislative crippling of the labor market, the exceedingly high interest rate produced, among other, by the unhappy combination of restrictive monetary and over expansive fiscal policies, inconsistencies and volatility of economic policy in general, particularly in view of its unpredictable turnarounds... all these are the conspicuous, eye-hurting manifestations of antiliberal policies. Some of these mistakes produce the hysteresis effects. For instance, significantly and long enough appreciated currency has led many firms to incur high external debts and the domestic debts with an automatic adjustment for the change of the exchange rates; as a consequence, eventual, otherwise badly needed depreciation, would produce large losses in the balance sheets of many firms and drive them into bankruptcy; the authority doesn't dare to depreciate, as that would cause high mortality of firms, while keeping the exchange rate at the existing level continues to produce grave macroeconomic damages in the balance of payments and elsewhere. There

are other manifestations of antiliberal stance in the local economic policy: huge budget deficit, overindebted state (on the verge of bankruptcy), bulky and inefficient public enterprises, large share of the state in the ownership of social capital, infinitely dragged and, as it seems, never to be finished privatization...It is not easy to imagine a country which could be seen to be more antiliberal than Serbia. By claiming that Serbia is all liberal, the *AL* do not prove anything but their disappointing and disastrous ignorance of the real situation and, particularly, of the theoretical foundation and analytical toolkit of the profession to which they believe to be belonging. Some time in the past I might have written that, by their bizarre notions and inconsistent reasoning, they have put themselves out of the profession. I was criticized for that in an informal discussion. Upon reflection, I take this statement back. They have not put themselves out of the profession; they have never really been in it.

Me against them: Settling accounts as a closing move

The purpose of this section is to line up a number of criticisms directed to the *AL* part of the economic profession in Serbia and to point out a number of fallacies which so vividly characterize their work. This review of objections and critical comments will have to be selective, meaning that the number of remarks will not be as big as it is called for given the number of reasons contained in their work and fully justifying the criticisms. Thus, many comments are omitted, including, of course, quite a few of those predictably and justifiably sharp and sufficiently bitter. The space and the reader's patience are limited and only some characteristic features to be discussed here have to be chosen. There is an alleviating circumstance though: our antiliberal writers are very similar to each other, they appear to be akin to each other like an egg to another egg, to translate literally a Serbian adage. Speaking of weaknesses of some of them, one is in the position to say a lot on the rest of the crew. This section is divided into two parts, the first of which will be devoted to the elaborating of the general traits of their analyses, while the second will be split into brief subsections, each of which will be devoted to

the one *AL* author. It is felt that each of the considered *AL* authors should receive separate attention, so that none of them would be in the position to believe that he is outside the critical purview or even immune to critical remarks. Nevertheless, not all *AL* analysts will be considered in this overview but only those who are perceived in the public as prominent or, in a few cases, who think of themselves as being prominent and visibly display that conviction in their public performances.

Some general traits of the antiliberal economists

The most conspicuous feature, with hardly any exception to be noticed, is their common enthusiasm in criticizing so called neoliberalism and the failure to define clearly the corresponding body of doctrinal contributions and institutional blueprints that they are in fact talking about. That allows them to pile all kinds of social and economic perversions on a huge heap and to call this bunch of oddities *neoliberalism*. This comes up as a direct negation of the universally needed discipline of thought, reasoning and expression. Most of the evils that they so lightly and offhand ascribe to neoliberalism have no connection whatsoever with any variety of liberalism or any stream of liberal thinking. Among the items ascribed to the *L* in such a way are appreciation of the national currency, the hasty and sudden opening of the capital market, the disequilibria in the balance of trade and the balance of current accounts, the unsustainable acceleration of the aggregate consumption, high levels and the excessive increases of the public debt, the deficit in the national budget and even international aggressions and “imperialistic” encroachments into the policies and even sovereignty of the smaller nations. An antiliberal sociologist recently wrote about something like the “market for international crime” and the “market for death” labeling them as paramount liberal phenomena. An *AL* economist cited him very approvingly, indeed enthusiastically, accepting wholeheartedly the “idea” of developing the “market for death” as a liberal peculiarity. Reminding them that life, liberty and private property are three basic pillars of liberal thought and value nexus proved to be absolutely in vain. How could death and killings be treated as liberal doings if life is one of the fundamental

values and one of the elements that are considered sacred in the liberal *Weltanschauung*? This misunderstanding is largely a predictable consequence of failing to define the concepts that are utilized leading to all kinds of arbitrary absurdities. In fact, the evils they choose to treat as components of the liberal baggage are eminently antiliberal; given the quantity and selective ugliness of what they in their oblivion choose to pile on the liberal collection plate, the institutional model which they call neoliberalism could with incomparably more justification be called neoantiliberalism. They thereby commit at least two mistakes: the sloppy thinking and the unfounded labeling of a majestic doctrinal and institutional system in connection with which they missed on badly lacking care even to (at least) superficially get acquainted with.

A particularly enlightening illustration of their mistaken notion of liberalism is their frequent citing of the breakdown of the economy of Chile which, as they claim, underwent disaster caused by “liberal policies” accompanied, as they also claim, by unprecedented criminal acts with hundreds of thousands of innocent people having succumbed tragically. In bringing out such senseless accusation they fail to ask themselves a number of questions and to attempt seriously to provide accompanying clear answers. Firstly, they fail to describe in sufficient detail what the *Pinochet*’s policies exactly had been. Secondly, what part of these “policies” might have been caused by systemic constraints or imposed by an inescapably intervening set of objective circumstances? And third and most important – what in these policies had been inspired or instructed by liberal teachings. The most touching is yet the attempt to ascribe those thousands of deaths to the “perverted” liberal notions of how to organize the economy and the society. Equally exciting is their identifying of all policies of the USA as the essence and paradigmatic instance of neoliberalism. The US policies turn thus out as a sort of proxy for the missing definition of *neoliberalism*; the fact that the US are far from the liberal idea(l)s, and in some dimensions tend to the opposite end of what the genuine liberalism would imply, simply does not catch their minds. The *AL* are also characterized by a generally inimical stand towards the international financial organizations, particularly towards the International

Monetary Fund and the World Bank, not being able to see the precious expertise which had been provided through these channels and ignoring the fact that these organizations never invite themselves to any country but usually respond to desperate calls of the countries whose own economic policies have, for various reasons, brought the corresponding economies to the brink of catastrophe.

Another amazing detail in the antiliberal perception of the economy and the society is the contention that all failures in the economic development of Serbia are caused by the underlying liberal orientation. However, if one was to pick the most striking example of antiliberal policies, Serbia would be a good candidate for the choice. To that conclusion more than eloquently point the following components and aspects of various economic policies (the time of writing late November 2014): slowly executed privatization with some 500 firms still in the state ownership or self-management status with what used to be called social property, almost half of the GDP being produced in the regime of price controls, huge and difficult to explain, not to speak about justifying, subsidies in the economy, the share of budgetary deficit in the GDP far above what was prescribed by law, analogous overextension of the ratio of public debt to the GDP, perverted legal regulation of the labor market which until recently (late summer 2014) gravely discouraged expansion of employment discriminating in fact heavily against the unemployed, remnants of protectionism in foreign trade, high inflation, far-reaching redistribution, massive forgiving and writing off of unpaid taxes, placing the party functionaries to highly paid posts in public enterprises, massive abuses in allocation of credits out of public funds and the state owned banks etc. [10, pp. 102-103], [13, p. 135]. Perhaps nothing testifies more convincingly to the lack of information, shaky professional knowledge and the loss of any touch with reality than the *AL*'s belief and even open claims that economic policies in Serbia are all in the liberal spirit and that such liberal stance has produced the economic disaster which both *AL* and *L* see and acknowledge. As indicated above, the *L* are able to see and explain some of the objective reasons of failed policies, such as destructive competition among the parties in the political market and the shaky and slow

acting coalition governments, while the *AL* neither see nor try to interpret any of this.

Another common feature of the *AL* in Serbia is a, so to speak, utmost distrust into the market and an unfounded and equally divorced from reality belief in governmental benevolence, cognitive capacities and efficiency. This lack of trust is revealed upon a more thorough examination of their way of thinking despite their ostensible pronouncements for the market. In fact, they may not be fully aware of their anti-market stance and would probably energetically deny it. However, their frequent and in fact regular turning to all kinds of direct intervention by the governments and the broad front that they would like for government to occupy demonstrate quite clearly their rejection of the market in many areas where it clearly performs better than the politicized civil service and the overbearing bureaucracy. The mere fact that market can show deficiencies in certain parts and in recognizable ways appears to them as a proof that the government at these points of market deficiency has automatically to be the right kind of coordinative device. Utterly alien to them is the idea of having both markets and governments deficient and prone to failure and that in the underlying choice between two evils comparative analysis has to be undertaken.

Preferences, alternatives and constraints could be taken as fundamental concepts in economic thinking. The *AL* is prone to neglect all three. Thus the political elites and the bureaucracies as their supporting echelons may have their strong, very particularistic interests which may greatly distort whatever public policies are being planned. One has to take into account such likely implementing deviations when counting on what could be entrusted to the government as opposed to the market which is freed from that type of malformation. The *AL* is oblivious of that kind of risks of government interference. It is also true that many changes and effects which are perhaps achievable in view of the extant level of technology and the available resources may not be feasible in view of the constraints within the institutional system itself. Such constraints the *AL* doesn't recognize and even strongly criticize the attempts of some *L* to identify such constraints and to trace down their implications. They treat such analyses

of institutional constraints as apologetic ventures of the *L* economists to find justification for policy mistakes and to defend governmental agencies against rightful reproaches of the profession. They look for causes of economic disturbances exclusively in the acts of concrete individuals, resorting even to their names in texts written with scientific pretensions – *nomina sunt odiosa* – and thus behave exactly in line with the theory of conspiracy about which Popper wrote with so much justified ridicule.

There is a basic contradiction characteristic of all adherents of *AL*. On the one hand, they look at the government as an institution providing socially acceptable solutions of almost all major problems and the implied width of recommended governmental intervention testifies to the exaggerated assessment of the market deficiencies and the unwarranted extreme belief in the benevolence laden efficiency of the entire machinery of the state. On the other hand, the actual policies of the government and its current performance are the subject of their overarching, bitter and unsparing, criticism. They refuse to see that they in fact recommend what in their ravaging critiques they find catastrophically devastating. That is a huge, inexcusable contradiction which they cannot logically justify. Their answer to this observation is that, while recommending the comprehensive state intervention, they do not have in mind the government as it is, the state in its present shape. They count on a quite different government, one which will prove to be constructively poised towards the grave problems of the present day, incomparably more efficient and able to overcome the difficulties which happened to fall far beyond the reach of the government as it presently exists and – this is automatically implied by their reasoning – beyond the range of whatever can be achieved by the market.

This is the grand illusion, one of the greatest mistakes persistently being reemphasized by the *AL*. They fail to see that creating a good government is a challenge far exceeding the building of infrastructure, industrial capacities and other physical components of the production system. They don't recognize that such a plan may never succeed because the prospects of getting an efficient government depend on a wide enough range of general social factors which may be objectively given and completely uncontrollable. If

some possibilities of getting a perfect government existed, that might have happened long ago; history would not have waited for their recommendations to deliver such perfect government. Some societies will have to live for long – some perhaps forever – with clumsy, inefficient and corrupted governments and the reasonable way to proceed is not to expect the unreachable wonders but to limit the area of governmental engagements and to orient it to its proper functions.

In the above reasoning the *AL* make a logical error close to *petitio principii*: they assume (the possibility of a) perfect government and then continue comfortably recounting uncountable functions which it is supposed to perform in an impeccable way. By allocating many functions to a government supposed to be next to perfect, they in fact assume the way in which they will be performed to “conclude” that the level of performance will be consistent with that way, i.e. a perfect performance is the premise and the “very satisfactory” performance the conclusion. A similar factual and logical error is committed by the *AL* when they take the example of a supposedly successful country – the South Korea is the ready and regularly utilized example – and then offhand conclude that the “deeds” should be entrusted to our state, i.e. the state existing in Serbia *hic et nunc*. As if all the states are alike and as if a country with inefficient and corrupted state can overnight create an almost perfect one. The *AL* is also prone to referring to the (professional) authorities and to using their assertions as the proofs for their own (the *AL*'s) claims. They should understand once and for all that the number of authorities is practically limitless and that by selecting the “appropriate” authority anything can be proven.

Selective comments on the findings and judgments of some antiliberal oriented economists

This overview is not meant to be exhaustive but only illustrative and, as suggested by the title of this subsection, highly selective. It is intended to provide a somewhat more concrete picture with insights into the means and byways of the antiliberal thinking. It is also intended to

illustrate to some extent eccentric, if not bizarre features of the antiliberal *Weltanschauung*. The selection of authors to be discussed in this part of the overview is in some measure arbitrary, without clear-cut criteria pointing to some easily recognizable authors rather than others. The criteria, to the extent that they showed up in determining this selection, would be the representativeness of the views within this school of thought against which this entire book is written, the acrimony and intolerance with which the *AL* ideas are formulated and defended and the presumed influence they might have left in our insufficiently informed and collectivistically contaminated public. The collectivist attitudes are much closer to the atavistic communitarianism of our people [15, p. 54], [15, pp. 65-66] and noticeable influence of the *AL* views should be expected independently of their intellectual merit and theoretical foundation. This is the reason because of which any struggle for the acceptance and recognition of the *L* views is uneven and difficult [13, pp. 132-135], with moderate prospect of wider adoption of these tenets as leading *Leitlinien* of social organization.

One of the criteria of choice – true, supplementary and indeed secondary – might have been, in some sense, the loudness and frequency of expression of these *AL* views, together with arrogance with which they are thrown upon the public. Even though the *AL* doesn't recognize the institutional constraints and objective obstacles in implementing economic policies, the general spirit of their elaborations is much closer to the mood of political elites than the content of the *L* views; by asking more and more of governmental interventions they contribute to their expansion despite the fact that, by their own admission, they never get what they hope to see as corresponding interventionist result.

Nebojša Katić is one of those *AL* authors who are most vocal in recommending the governmental intervention, especially in the times of crises whose possibility of having been government induced he would never admit. The remarkable fact is that he takes the government's ability to contend with the crisis as evident and unquestionable, and the risk of crisis being deepened by these interventions as nonexistent. Not a single shade of doubt in governmental ability to come to grips with the crisis can be noticed in his

writings. With such deep conviction about governments' capacity to solve the messy problems "caused by recklessly deregulated market" (this is a guess of how his formulation might look like) he goes on and with some ecstatic exhilaration asserts that all have now (in times of crisis) become Keynesians. To my best knowledge, none of the liberally oriented economists here in Serbia has converted to this old macroeconomic faith. More to the point, even the officially launched economic policy of Serbia is at the opposite end of the article of faith implied by Keynesianism: in the depth of the current recession the government has resorted to significant cutting of pensions and wages and salaries in the public sector; the imperatives of life take most naturally precedence over theoretical (haven't they become ideological?) prejudices. The duly sober and professionally unquestionably competent Fiscal Council [4] does not harbor any hopes regarding revival of the economy through increased public spending; the only point at which they are discretely Keynesian is worrying about the impact of possibly restricted aggregate demand on domestic production, due to the just mentioned cuts in incomes, which is quite legitimate and for which risk they are seeking the appropriate remedies. *Katić* interprets the current crisis as a mortal blow to the liberal thinking without explaining what exactly – beside purported deregulation for which *Tasić* [17, pp. 77-82] convincingly demonstrates that it did not exist – what exactly was so terribly liberal in the pre-crisis policies. Moreover, the deregulation, to the extent that it came to the fore, might have been forced by exogenous factors such as the international competition of the regulating arrangements themselves, but this idea does not provoke any reverberation in his mind. Whatever catastrophe the *L* doctrine might have suffered, an objective analyst is expected to observe phenomena in a wider context and see what happened to the doctrinal systems competing with the *L*. Had he taken a wider look at the world economy and institutional realities, he would have observed the epochal breakdown of the socialist system and concluded that, whatever damage suffered the *L* doctrinal body, its principal and the most conspicuous alternative fared much, much worse. Similarly to other *AL* adherents, *Katić* fails to pay heed to the alternatives, one of the basic categories of economic

science, and therefore misses on the basic truth revealed in the area of comparative systems: the given variant *V* may be unlikable in many respects that we care about, but if no other feasible and sustainable options exist, it is still an institutional optimum, the best among available options. He may attempt to take refuge in asserting that Keynesianism and other forms of interventionism are the alternatives to *L* he had in mind, but that would not be correct; *L* is a grand, comprehensive system of doctrines and institutional choices and its alternatives can meaningfully be defined only on the same level of generality. The true alternatives to such a comprehensive, epochal and grand system would be only socialism with its Marxist substantiation or, not too far from it, fascism with its alternative, again collectivist ideological superstructure. *Katić* is one-sided, too narrowly focused and irrevocably prejudiced in his institutional and policy preferences; therefore, no hope should be laid in affecting appreciably any of his thoughts. Deeply dug into his antiliberal views, he is likely to remain there until the end of time.

He is economically literate enough to understand that the so called Washington Consensus (*WC*) is a set of theoretically and logically grounded rules which any reasonable policy is bound to respect, but he still finds fault with it; he does that by referring to details and asserting that it is the details which allegedly make the *WC* deficient as a platform of economic policies (*Der Teufel steckt in Kleinigkeiten*), but he never comes back to these details to demonstrate the ineptitude of the *WC*. He also accepts the so called greed theory with visible enthusiasm and, one is tempted to say, puts himself outside the science of Economics; it only remains to one to wonder what alternative economic theory he has in mind and how could a theory be developed at all without postulating that something is maximized in the behavior of economic agents. How come that people became so greedy in these days without apparently having been greedy in the long course of human history? Are we witnessing some deterioration of human material, a sort of its ethical degradation?

Mladen Kovačević continues to be one of the most vocal critics of the *L* thinking and a prominent proponent of the view that about all evils stemming from economic predicament of Serbia emanate from wrong policies

inspired by the perverted conceptual framework and the accompanying theories associated to the liberal outlook on economic realities. It is highly indicative that one cannot unambiguously discern what he exactly means by neoliberalism and his assertions cannot be checked against some clear and unique standard of semantic identification. That does not come as a surprise because any attempt to define precisely neoliberalism would plunge him into serious trouble: many of deficiencies which he judges as of liberal origin would come down to be directly nonliberal. He is the most extreme among those who use neoliberalism as a waste basket for stuffing in whatever he finds unlikable or damaging. It will come as a surprise to him that by far the most of the monstrosities which he throws on, what he thinks, a liberal rubbish heap are, in fact, eminently antiliberal. He has turned it all upside down.

I have to point out to his credit that he immediately understood the explanation of the origin of the major part of the balance of trade deficit of Serbia: a country which has significant remittances and other forms of factor income, as well as foreign exchange inflows through foreign direct investment, increasing foreign indebtedness and other similar inflows, does *not* have to maintain – and even cannot aspire to achieve – the equalizing balance of its foreign trade. Therefore, whenever foreign exchange availability is above the export proceeds, the country has to run balance of trade deficits. These deficits are in the case of Serbia significant because the excess of foreign exchange receipts over what is earned by exports is also significant. Economists have long ignored this elementary fact and have criticized foreign trade policies out of any proportion with what is justified in view of the real constellation of the relevant macroeconomic aggregates and in view of the above indicated legitimate foreign trade deficit. Here and there I have resorted to the appropriate self-criticism (this used to be a sign of not-so-bad part of the behavior within the Party during Communist times), while professor *Kovačević* has not done that (even though he has occupied incomparably higher places in the Party hierarchy than was the case with me).

Another *AL* adherent, *Marko Sekulović*, seems not yet to have understood the elementary arithmetic fact – when total foreign exchange inflows are much higher than

the export proceeds, imports have to be correspondingly higher than exports, with smaller modifications of the second order of magnitude – and has on October 15, 2009 in Kragujevac launched a polemic with me exactly on that account. He accused me of siding with the government and defending its failed policies, as exemplified by huge deficits of the balance of trade, and seems to be opposed to this arithmetic fact ever since, until the present day. The hope remains that some such things the local antiliberals will be able to clarify among themselves, so that we, the participants of *L* do not waste any more time on these trivialities. Just in case, let me refer to a textbook [14, p. 458], which I read only later, following this discussion, and was unable to refer to at that time. By the way, I wholeheartedly recommend to the adherents of the *AL* systematic reading of textbooks; the insights presented there are carefully sifted and clearly laid out, so that they provide the easiest way of supplementing our knowledge in which we never exceedingly abound. This was a convenient opportunity to mention in passing professor *Sekulović* since I don't intend to devote any further part of this overview to him.

Jovan Dušanić is a truly dear friend of mine, as are in fact almost all Serbian antiliberals (with two exceptions, one of which is due to the inescapable generation gap). This makes it markedly more difficult to indulge into the verily principled discussions, which are inevitable when it comes down to refuting the statements not holding up to the rigorous scientific scrutiny. Yet, this must be done; it would not make sense to continue these polemics which last for quite some time now without going sufficiently far and deep to justify the hope that some kind of truth is reached and proved.

The first friendly quarrel I have to indulge into relates to his belief and repeatedly brought out statement that the economies of (more or less) all countries are growing in size and, simultaneously and perhaps even more, in complexity (with which statement I have no quarrel), and that the need for governmental interventionism increases quickly in parallel (with which I have plenty of quarrel). From the way he formulates his conclusion about the growing need for government intervention [3, p. 31] it comes out clearly that he has in mind management and control of these huge

systems, the way big (and small, for that matter) companies need management and developmental steering. The body of literature which can be considered truly scientific contains rigorous proofs of a thesis which is exactly the opposite from what *Dušanić* claims. The most reliable and the most economical way of clarifying this contention is to refer to the monumental work of equally monumental figure of *Hayek* [5, pp. 133-144], [6, pp. 44-58, and more particularly pp. 44-45]. The basic idea is straightforward even though the proof is involved.

The available knowledge and the accompanying quantity of information are limited at any point of time and these factors clearly define the reaches and possibilities of managing (in the usual sense and in the sense of *Dušanić*) any system. The larger the system, the more severe such limitations. The large and complex institutional creations can be so complex that they cannot be properly understood even by the authors of the acts and the accompanying by-laws [17 p. 147], [1, p. 92]. What cannot be understood cannot be managed. The fact of the matter is that these huge and steadily growing systems cannot be governed (in the usual sense of the word) by governments or any other agency. The only way out is to resort to creating and shaping the rules, i.e. building the institutional framework and legal order. Any attempts to govern and manage (in the usual sense implied by *Dušanić*) can only produce more chaos and, ultimately, catastrophe. A detailed and highly professional development of underlying argumentation in the domestic literature can be found in *Lakićević* [8, pp. 161-171]. In fact, that proposition is empirically confirmed in the most drastic and tragic way: the epochal breakdown of the socialist order happened *in ultima linea* as a result of the faulty system based on the notion of governing the ungovernable.

The analogy with the gardener comes in again very nicely here: any attempt to create a leaf by sorting out the molecules must be unsuccessful and could only produce chaos in the microcosm of these tiny components of matter. But if the gardener provides the appropriate conditions (humidity, temperature, illumination), which are analogous to the rules in this context, many leaves will nicely grow by themselves, the nature will perform the miracle which proved to be beyond the reach of anybody

attempting to create a leaf artificially. The leaf allegory is perfect for presenting the two opposing conceptions of the role of the state, the *AL* and the *L* conception. The *AL* approach is analogous to the gardener-engineer attempting in vain to construct a leaf by ordering the molecules; the *L* approach corresponds to the traditional gardener who just provides the condition and lets nature do the most complicated, unmanageable part of the work. To summarize, the approach of professor *Dušanić* is akin to the class of attempts to create and coordinate by direct actions an inconceivably complex organization, such as the proverbial leaf. Such an approach is unrealistic and infeasible, and, equally to the point, it is in direct contradiction with the established and widely accepted scientific results. What is intended to be said here is that *Dušanić's* approach is unscientific.

The second big issue which has to be raised with *Dušanić* is his contention that the dollar is accepted as an international currency by force and, so to speak, brutal coercion [3, pp. 131-141, especially p. 132]. That is outright mistaken and deprived of any logical foundation. The simple truth is that no currency can be forced upon others by any kind of coercion. Currency can gain the status of the international money only if it acquires credibility, i.e. if it earns that elevated status. This is so obvious that it is almost embarrassing to proceed to proving it. Let it only be mentioned that there have been several occasions allowing acceptance of other currencies (euro, yen) and that considerable hopes have been entertained by some international business segments and, notably, financial circles, to launch a particular currency as an international means of transacting; but nothing came out of it. The key word is again the credibility; someone currency stands the chance of being accepted as a means of transaction only if both (all) parties to it believe that the value of the currency will be maintained and that no one will find himself in the position of feeling sorry of repenting because of agreeing to deal in that currency.

Another big area of disagreement (among many!) between professor *Dušanić* [3, pp. 147-154] and me is the interpretation of the Chinese development miracle. He is convinced that this miracle is due to the activities of the state. It is true that China has implemented some

extremely well thought out and macroeconomically favorable economic policies, but that does not provide the answer to the question of Chinese success. There is much more to it than just the policies: China has liberated her people, one could say in such a magnificent way which can be termed unprecedented. That is the key item in the recent Chinese history without which the miracle cannot be explained. This liberation has unleashed tremendous, unimaginable energies without which anything undertaken at the top of the governing hierarchy can only be futile. At an operational level, huge successes cannot be produced by the narrow circles party or whatever elites; for huge successes participation and cooperation of huge numbers is needed, and that, in the Chinese case, was only possible by eliminating the shackles of the people's communes and totalitarian government which ruled for decades prior to the initiation of this success.

It goes to the credit of the government that it did stifle not this huge creative upsurge by some ill-conceived, by the past doctrines inspired policies. One important thing, which I found nowhere else to be emphasized, is that it is not only institutions as such, whatever their form, that drive development and produce success, but also institutional dynamics. The right direction and the proper kind of institutional change generate favorable expectations and thus contribute to a huge anyway growth potential of the economy. To conclude, it is not the concrete actions and undertakings on the part of the enlightened state that have engineered the admirable Chinese growth, but the fact that the situation was at last created in which growth will be driven up and happily secured by others. And those others numbered hundreds of millions, with all of them placed in an entirely new state in which so much could have been done what prior to that had been impossible. One could argue that this liberation of people is also an act of the state and that the ruling, party or whatever, elite is to be credited for this achievement. However, such a statement does not amount to much: it is equivalent to saying that the gardener should be hailed for the creation of the allegorical leaf without specifying whether he did that by using inconceivably huge microscope with unbelievably tiny instruments or by relying on nature and just supplying necessary general conditions (in our

case analogous to institutions) in the form of appropriate temperature, illumination and humidity.

Dušanić is thrilled by Chinese values and contributes to them a good deal of the said developmental success [3, p. 151]. He is plain wrong, here too. His view is all too narrow to make him able to understand the significance of values. While speaking enthusiastically about noble Chinese values he forgot that China is one of the most corruptively contaminated countries of the world and certainly one with the largest number of death penalties adjudicated for corruption. She is the country with one of the most unfavorable records in the domain of human rights – where human rights are at such a low level of protection, one can hardly speak about notably elevated status of human values – and a country with appalling inequalities between the rural and the urban areas. *Dušanić's* view is again too narrow – this seems to be a generic characteristic of the *AL* camp of analysts – he misses gruesome atrocities perpetuated during the Great Jump Forward and the Cultural Revolution, when millions of innocent people lost their lives; that, too, was done by the same (noble in *Dušanić's* view) Chinese people.

It is well known that China has still a bulky junk of perilously inefficient public enterprises which piggyback on the rest of the economy, i.e. on the private sector. The authorities use these enterprises to place the party cadres into well paid and comfortable positions, rewarding them for their political services. This is an exploitative violence exercised not only to the private sector but to the society at large – the losses of these firms are being covered at the expense of the taxpayers – which is grossly inconsistent with the *Dušanić's* rosy picture of the altruistic and self-denying social values of the Chinese society. Focusing on conveniently chosen details and forgetting a wealth of other elements contradicting their contentions is typical of the *AL* branch of the local economic profession and a crying sign of intellectual inadequacy.

Just one word about the military for which I have been arguing for about 15 years to be dissolved and removed for good in a human and organized way. Here, too, *Dušanić* shares the weaknesses and ineptitudes of the camp to which he belongs. Despite more than painful evidence to the contrary, he believes in the ability of our own army to

defend us against foreign enemy. Hasn't the disappointing experience with the JNA been enough? The right defense strategy for a small and economically broken country like Serbia is having powerful friends and avoiding all kinds of enemies; the risk is high that even if we find ourselves in the conflict with a weaker state – and the number of such states is limited and, as it seems, declining – somebody bigger and stronger will intervene and the outcome is bound to be the same – unfavorable. Professor *Dušanić* seems ready to be defended by the domestic army; as for me, I follow the lines of a popular joke – thank you. Declaring itself to be the country without army, Serbia would get substantial prestige and international recognition. *Dušanić* with undeniable wits cites an ancient proverb: those who don't feed their military will feed somebody else's; my answer is: if none of these – our own or alien – is of any use, none should be fed.

Radovan Pešikan is another nice, easy-going and civilized man with whom I, unfortunately, have to continue the polemic. He has declared himself to be a liberally oriented economist, but with his ideas of a dense network of state run banks [11, pp. 233-241] and the recommendation of heavy involvement of the government in the production and choice of the investment projects [12, p. 344], one is at pain to see how these recommendations could fit into any, even the most flexible and unendurably stretched liberal framework. He, too, shares the conspicuous and sadly damaging laxities of the antiliberal front (*AL*). Firstly, he does not have a clear understanding of what liberalism (*L*) and its adherents are, and, secondly, he is oblivious of realities and overwhelming empirical evidence speaking against his notions. As to the first ineptitude, he significantly departs from the rest of his *AL* colleagues in that he perceives *L* as something positive and desirable and ascribes to it many of the attributes he believes would be of much use to the economy. This positive attitude is worthwhile, at least from the point of view of *L*, but as many of his recommendations appear not to be well taken, his constructive misunderstanding partly boils down to what other *AL* claim while offering a radically interventionist blueprint of economic policy. The sameness consists in advancing views which either cannot be applied or, if applicable, would be damaging

to the economy. The second *AL* feature shared by *Pešikan* is the ignoring the facts of life, the empirical basis of one takes upon himself to analyze. Just as the core of the *AL* clearly perceives and bitterly criticizes the way in which managerial, entrepreneurial and other direct functions of the state are performed and yet ask for more of its intervening into the allocation and use of resources, so *Pešikan*, oblivious of the drastic failure of the state (partly or totally) owned banks insists on all banks being a part of the network run by the government.

Another striking feature lining him just along with other *AL* economist is his unwarranted belief in the might and responsibility of science. Economics is, to begin with not particularly strong and there is much in it of which we cannot be proud. More to the point, economics as a science is most of the time ignored and political bodies in implementing policies pursue their own interests. Being without influence – and, in part, deservedly so – economic science cannot be responsible for what is unfolding in the economy of Serbia. Equally important is a look into the future: the prospects of having this science much stronger influence is slim indeed and counting on a big turnaround regarding the treatment and resulting influence of economic profession is plainly unrealistic and naive. After all, what responsibility there remains in this chaotic country and its deeply disrupted (macro)economic position – is undoubtedly borne by the incumbent political directorates and asking for particularly big influence of the scientific circles amounts to asking authority without responsibility. By asking such a thing, the initiator of such move displays disappointingly poor understanding of some elementary economic principles.

There remains one more major misunderstanding deserving supplementary comments. It refers to an extremely simplified procedure for measuring performance of the ruling political directorate which consists in measuring the rates of growth of the GDP and a number of chosen macro indicators; these would be compared with the performance indices set in advance and promised in electoral campaigns, in case of underfulfilment surpassing the degree specified in advance, the incumbent government would have to resign. A detailed review of this proposal, offering comprehensive criticisms, is given in an earlier

paper [9, pp. 314-323], so that only a few critical remarks will be given here.

The principal difficulty of the proposed scheme is the simple fact that variations of the growth rate of the GDP and of the aggregates that may be selected along with it, such as growth rate of exports or the changes in the ratio of exports to imports, do not reflect the quality of the governmental policies. The governments are frequently in the position to undertake fiscal consolidation and major stabilization actions which, in order to succeed, imply as a rule lowering rather than increasing the relevant rates of growth. The proposed scheme would punish governments undertaking and implementing the most needed, optimal policies at a given time. It would, on the other hand, reward the opportunistic policies forcing up the growth rates by postponing or omitting altogether the urgently needed actions of putting the economy in order. The influence of exogenous factors is also disturbing. That influence is particularly strong in the shorter time intervals, those going up to the electoral cycles, which introduces a stochastic element into the evaluation of the performance of the incumbent governments. Due to sheer luck, some governments would severely suffer, while the others would undeservedly fare well. A bias toward opportunism in development and economic policy would also be introduced: due to temporal substitutability of the rates of growth, the possibility of achieving relatively high rates in the short run at the expense of their marked decline in a somewhat longer run would exist. Incumbent governments would be induced to pump up the rhythm of growth in current periods while leaving the heavy legacy of reduced growth potential to the future. At last, we should be restrained in evaluation of our creative capacities: if it were that simple to design a procedure for evaluating governments and taking them to responsibility, somebody else would have devised it long ago; the history would not wait for two of us to come up with such an “elegant” solution.

Risking the same kind of objections, albeit less damaging because the proposal will be less ambitious, an alternative procedure is proposed here just as a suggestion for further considerations, without pretence of having found the right solution. Rather than following the volatile and unpredictable growth indices suggested by *Pešikan*, the

birthrate and mortality of the firms, as well as the difference between these two magnitudes, could experimentally be considered as an indicator of government's seriousness to revive the economy and to give it a sustainable impulse for further growth. That indicator would be more closely linked to the economic policies, especially to the government's effort to (re)gain the confidence of the business circles. E.g. inimical or clumsily devised policies are almost immediately reflected in the increased mortality of the firms and a set of constructive policies could be interpreted by the public as a hint or a series of hints of systematic and persistent future encouragements to the business sector. The increase of this indicator of business vitality could more closely reflect the true support to business on the part of the government.

No doubt, a series of unsolved problems remains unresolved. There is still some temporal interdependencies – the actions undertaken now may produce some effects in the future and some forced quick results might have their longer-run costs in terms of reduced growth of the number of new establishments in the future. Some problems might prop up in connection with the magnitude of the newly born and currently extinguished firms: should all firms, both at the birthrate and the mortality side, be weighted equally, and if not, how to go about this? It goes to the credit of Pešikan that he has spurned on a new line of thinking and suggested some interesting associated ideas. The hope remains that other people may join in suggest something more founded, logically as well as functionally, contributing to ever alive and relevant problem of improving the social control over the ruling directorate.

The great theme of doctrinal divergences can never be exhausted. A number of them are discussed in this overview to some length and a much larger number has only been touched upon. The principal message is not that one or the other stream of doctrinal development is for or against the market or the government. Both streams are for both market and government, but in vastly different ways. The liberal stream in economic science (*L*) advocates the stand that well protected property and appropriate contract discipline is unimaginable without a strong and well organized government. That means that a devoted and efficient government is an essential

precondition for the well functioning markets. In view of the limited capacity of the governmental machinery, and particularly of the civil service, the government cannot be strong and efficient if engaged on a broad front and in many undertakings that don't belong to the proper functions of the government. The antiliberal stream (*AL*), on the other hand, wants the government to be engaged on a broad range of tasks, many of which are reducible to direct control in the economy and management in the conventional sense of the word. By being occupied by such a broad range of tasks the government cannot be strong and efficient in carrying out its proper functions. In what is its proper job government in the antiliberal set-up turns out weak. Thus, if one considers the range of functions properly belonging to the government, the *L* conceptual approach is the one of strong government, while the *AL* paradigm is in fact a teaching of weak government. True, if government proceeds to act on a very large range of social affairs, it certainly amasses considerable, dangerously augmented power; however, this is not the strength in performing its immanent functions but the strength in relation to the rest of society. It should prove evident that governmental strength in this latter sense of the word, the strength over society, is certainly not something to be desired. It is a permanent source of institutional hazards and political *cum* economic dangers.

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Ljubomir Madžar

Graduated at the Faculty of Economics, University of Belgrade in 1961, became MA in 1964 at Williams College Mass., USA, and PhD at the Faculty of Economics, University of Belgrade in 1968. His basic orientation refers to the field of economic growth, institutional aspects of development and the problems of governance, macroeconomics and stabilization, etc. He has published ten books and over 400 articles in professional journals. He dealt with the privatization and formation of permanent institutions based on market economy. He was member of the Council of Economic Advisers in the Government of A. Marković, the Chief Editor of "Economic Thought" 1987-11, and a member of the Government of M. Panić 1992-93. He was full professor at the Faculty of Economics University of Belgrade since 1982, then rector and professor of the University "Braca Karic" – today "Alpha University", where he is still engaged.