

## INSTITUTIONAL NIHILISM AS A BASIS FOR ANTI-DEVELOPMENT POLICY

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### Abstract

*Private initiative in an environment of well protected property rights and a good legal system, high quality performance of institutions, clear rules of the game, consensus building capacity of the society regarding the importance of economic freedom can bring in significant differences in economic development between particular countries. During the period of the post-socialism transition, the whole system of inhibiting institutional and other factors has caused the dysfunctional conglomerate system. The effect was synergetic, destructive, and anti-development. Two decades of intense crisis, with all the accompanying events, has not been sufficient warning to holders of (vulgarised neo-liberal) economic policy in the post-socialism states that something is wrong and that the anti-development model ultimately needs to be changed.*

*This paper discusses the causes and conditions that have disabled the pluralistic and even monistic acting of economic institutes in the practice of transitional countries and have led to their objective substitution by the quasi-institutes and meta-institutes of a socio-pathological nature. It emphasizes the primary significance of institutionalization for economic policy, as well as the negative effect of pseudo-institutes on economic policy and the valorisation of economic resources. In addition, the article provides evidence that monistic pseudo-market reforms in the period of post-socialist transition have not succeeded in compensating for a vast institutional vacuum, and that they have even led to its spreading and turning into a quasi-institutionalization, and institutional nihilism. The paper explains that the institute of civil society as an instrument of people protection from the government doesn't work universally. It's denied by variety of national, corporate and informal groups ("elites"), which are superior in wealth and power and limiting the individuals. Uncontrolled power centers abuse Institute of state regulation and, paradoxically and ironically, preach and conduct marauding ideology of neo-liberalism as an institutional monism.*

*We start from the hypothesis that the institutional nihilism is the main cause of unsuccessful post-social transition and anti-development and vulgarized neo-liberal economic policy. We also start from hypothesis that the neo-liberal myth about "mini" state was the interest cover by privileged individuals for their promotion and choice implementation, which reduced the choice of the vast majority of people, and therefore denied their (propagated) economic freedom, competition, private property and entrepreneurship as a mass phenomenon.*

**Key words:** *Economic Institution, Institutional Pluralism, Institutional Monism, Neo-liberalism, Transition Economies.*

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## 1. Introduction

A. Smith found that growth depends on two types of factors. In the first part of the equation, he focused on the production factors, that are today in the centre of interest of endogenous growth theory, which works in the neoclassical tradition and focuses on production factors, especially on technological development and human capital (Aghion, Howitt). In the other, Smith stressed the importance of a proper institutional setting, i.e. an environment that supports growth. More recent evidence suggests that growth is determined by a much larger set of endogenously determined variables (Romer, Lucas). Endogenous growth models have pointed out many other variables that contribute to differences in growth rates, such as knowledge spillovers, technology transfers, R&D funds, and human capital. Yet even these ideas fail to explain the observed patterns of development. His theory implies that institutionally sensible policies can result in a GDP growth rate that is permanently higher (Keseljevic, 2007, p. 224).

The failure of transition in the post-socialist countries resulted from the application of “reform” politics with double standards. Under the rhetorical neo-liberal mask of the market, competition and freedoms, the politics and strategy of “reformers” were oriented toward non-marketable process, motivated strictly by individual interests, instead of propagated social and economic results. Social and human values were degraded. Everything or nearly everything was out of control. Retrograded processes were abundantly materially awarded, and social and economic results were catastrophic. Focusing on the process and neglecting results is possible only in the conditions of institutional underdevelopment, which enables the „flourishing” of interest-oriented errors and ambitions and their active impact on the economic politics. Crisis challenges may, in principle, have only one efficient response, which is the same at the global, regional or local level. It anticipates focusing and coordination of five development *I*-factors (V. Draskovic, 2010, p. 20):

- *Institutions,*
- *Infrastructure,*
- *Innovations,*
- *Investment, and*
- *Information (conditionally: knowledge).*

This paper makes a distinction between the institutional vacuum that occurred during the initial period of transition and the run-in institutional nihilism that resulted from the long-term change in the “*pathology of the neo-liberal model*” discussed by M. Mesaric (2011, p.12). It has led to the creation of socially irresponsible and immoral mutant economic and social order, the alleged “*version of capitalism*”, but “*without a human face*”, which is opposite from the models suggested by Young (2003), Aburdene (2005), and other authors.

There is no matter how versatile modern theoretical approaches are, and how frequent considering of the institutional problems of the economic growth and development are, the questions of the concrete contents, of the dynamics and improvements of the economic institutions, and especially of their functional applications in the traditional economics do not have deep and complex basis, nor satisfying analytical and practical answers, up to now. All is reduced to the descriptive scientific approach. This, in certain way, resulted in the starting hypothesis from which the subject and aim of this paper's research have been formulated. They consist in an attempt of identifying real and concrete reasons of reproducing the institutional vacuum in the transitional economics. Simultaneously these are the reasons of the clash between the formal rules and their slow and weak usability in the practice.

This paper attempts to explain:

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a) The essence of neglecting the real institutionalization in the post socialism countries, through the identification of the quasi-institutionalization model and the short analysis of the mentioned reasons, and

b) The paradox of the established phenomenon that the institutions as the rules and constraints became the barrier for their unlimited avoiding, meta-institutionalization, and quasi-institutionalization.

## **2. Socialist experiment of institutional monism**

Institutional monism experiment in socialist countries began in socialism, somewhere before (1917, Russia) and somewhere later (1945, Yugoslavia). It is characterized by:

- ❑ open repression of the government system, dominance of bureaucratic etatism and management (command economy) along with planning naturalization of commodity-money relations and undeveloped and unorganized market,
- ❑ economic inefficiency caused by the system destimulation, paternalism, employees' lack of interests, fictitious employment etc.,
- ❑ ideological and political subjectivism and dogmatism, which caused dissatisfaction among people as well as numerous socio-pathological phenomena,
- ❑ ideological blurring of the essence of economic reality, which was dominated by monopolistic structures,
- ❑ false collectivism of organized economic and political coercion, and equality at a low level of satisfying needs,
- ❑ vicious and controversial circle of fundamental system elements (public ownership, monopoly of the state sector, total planning determination - the road to communism) and
- ❑ many negative consequences, such as price disparities, trade deficits, trade imbalances, speculative market, the dual exchange services of rublj, low living standards, extensive economic growth, economic stagnation and crisis, totalitarianism reproduction in all areas of life and work, etc.

The implementation of general social and economic reform ("*perestroika*") began in 1985. in the USSR, with a demand for "more socialism". The results were devastating. They showed that something is much easier to proclaim than to achieve. It was not easy to bring down the house which had been built for decades based on directives, slogans and false promises, on the one hand, and enthusiasm, persecution and sacrifice, on the other.

In the early 90s, post-socialist transition began in Russia, in all former USSR states and other countries of Eastern and Southeastern Europe (Draskovic, V. 1995). It implied radical economic and social reforms, transition from authoritarianism to democracy, pluralism to monism, from socialism to a mixed progress society, from formational to civilizational development.

Key control and other instruments of the socialist regulation of the state were rapidly destroyed, whereas new instruments were insufficiently formed and they were not duly adapted to meet market principles and requirements even in their reduced form. Rapid and non-selective removal of the „created” state property and its conversion into private ownership has further weakened the institute of state regulation. Handling the main levers of economic system was reduced whereas its un-systematic features were increased, the economy was criminalized and many forms of quasi-institutionalization were expanded. Corrective activity of the state regulation „from above” is absent, which should accelerate the development of other economic institutes

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(the market regulation and property rights), which were separately developed in monistic and meta-static fashion. Closely privileged motivation and entrepreneurial initiative of rare individuals was forced.

Privatization was not conducted in accordance with certain legal and economic criteria; therefore it did not create the conditions for increasing the economic efficiency and economic freedom. It usually presents an insufficient condition for economic efficiency as its main promoters are the competition, management improvement, efficient and flexible regulation of the state. Competition is reduced to primitive market structures whereas the monopolies took advantage of all the chances that occurred (that were made possible for the privileged individuals). The lack of economic efficiency as the undisputed target functions and / or basic privatization criteria says enough about its failure. Transition dogmas were formed replacing the socialist ones with an uncertain shelf life and altered value criteria ranging from 'shock therapy' through the theological replacement of goals of economic growth end development (finding the way out of the crisis, economic growth, efficiency) with the means (liberalization, privatization, democratization, institutionalization, stabilization), to the socio-pathological demagoguery and rhetoric which were used to create the alleged real institutional changes (Draskovic, V., 2010, p. 12).

"Woe account of socialism" (Shatalin S. S.) was replaced by a new mutant order, which did not lead to the desired prosperity. Nations still pay other people's accounts for the failure of "reforms" that were focused on the narrow interests of new "elites", the crisis intensified and reproduced, the enormous polarization between the impoverished nation and the enriched rare privileged individuals, while dissatisfaction is huge. The cause must be sought in the concealment, vulgarization and abuse of institutional changes.

Table 1 Growth in real GDP, 1989 to 2009e (for selected transition countries)

<b>State</b>	<b>Index 2009 (1989=100)</b>	<b>Average per Year</b>
Poland	180	3,0
Czech Republic	137	1,6
Estonia	128	1,2
Hungary	127	1,2
Slovenia	144	1,8
<i>Central Europe and the Baltic states</i>	150	2,0
Bosnia and Hercegovina	81	-0,1
Bulgaria	109	0,4
FYR Macedonia	100	0
Montenegro	88	-1,1
Romania	118	0,8
Serbia	69	-2,9
<i>South-Eastern Europe</i>	107	0,3
Armenia	131	1,4
Belarus	156	2,2
Georgia	58	-3,7
Ukraine	60	-2,5
Russia	99	0
<i>Eastern Europe and the Caucasus</i>	91	-0,5
<i>All transition countries</i>	131	1,4

Source: adapted from Domazet, 2010, p. 15

The transition to a mixed institutional economics in China of the 80s and 90s is the evidence that the gradation transition is much easier and more efficient than the "shock therapy". The Chinese have proved in practice their wise saying that

*"it does not matter what color is the cat, while it catches mice".*

In addition, they relativized assertions of many Western economists regarding incompatibility of the market and socialism ("*Spontaneous evolution and cognitive control*" - F. Hayek). There are differences between some regions, as shows table below, because Shina's GDP, at purchasing power parity (PPP), was 80 per cent of that of the US in 2009, an "*by 2014, at current rates of relative growth, China's economy will pass the US, in absolute size, to be the biggest in the world*" (Wolf, 2010).

Neither the failure of the market, nor all the strains of the market, or even many economic crises that build upon each other, or even fatal consequences of the transition are sufficient to understand the illusion and deception of vulgarised institutional market monism. Consistent application of even that part of the state regulation referring to the rules of conduct (probably equal for all?) would be sufficient to eliminate all irregularities, negativity and deformation that marked the "rule of law" and "entrepreneurship policy" of neo-liberal "reformers".

A complete distrust in the institute of state regulation is neither logical nor productive and is not appropriate for increasing IT, production, innovative, financial and civilizational integrations. Even if we ignore government economic functions (in the part of macroeconomic policy), we must wonder: why has its legal and control function failed, without even being questioned by anyone? It is clear that the political decisions influence the economic decisions that were focused on maximizing personal advantage of privileged individuals.

Let us remember that the Nobel laureate D. North (1981, p. 32) wrote three decades ago:

*"The dominant goal of the capitalist state is the construction of such institutional structures, especially the structure of ownership rights, using which it achieves maximization of income (social welfare-remark by the author) and a high degree of freedom"* (through minimization of costs for specification and protection of property rights – remark by authors).

Where are those so frequently propagated economic freedoms?

### **3. Modelling of transitional institutional nihilism**

Institutional nihilism is defined as:

- ❑ the situation created after the long-term anti-institutional action,
- ❑ intentional blockade of realistic institutional changes,
- ❑ promotion of quasi-institutional and meta-institutional changes,
- ❑ long-term effects of vulgarized neo-liberal institutional monism, and
- ❑ long-term reproduction of institutional vacuum.

Economic development of post-socialist countries is based on permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neo-liberal recipes of macroeconomic politics. The latter one has been extremely motivated by interests of insatiable appetites of state nomenclatures, which represented the main obstacle for institutional changes, apart from noticeable socio-pathologic milieu. All of this resulted in long-term

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destabilisation of economic systems through disinvestments and spilling over of positive effects in spending instead of production.

There has been a huge gap between formally established economic institutes from foreign economic policies and economic behaviour in practice, which was far from standard norms. A strategic significance of practical institutional innovations was disregarded as well as their priority role compared to economic politics. Vulgarized individualism was imposed by certain „*skilful and capable entrepreneurs*” („*efficient owners*”) as a social and civilizational norm. Such reduced individualism (of the privileged) became very fast a foundation of formal institutional monism as theoretic and ideological basis for neo-liberal economic politics (which resembles economic „*Reseller Fog*” i.e. „*selling of nothing*” – without consequences for sellers.) The main cause of the mentioned phenomenon is a paradoxical need for the public economic policy to serve private interests.

Wrong post-socialist economic policies contributed to the creation of a specific brake and crisis transitional model „23 D” (adapted according to: V. Draskovic 2007, p. 93), which is made of:

- **Deformation** (of the economic reality, entrepreneurship, value criteria, competition, market principles),
  - **Deficit** (of the rule of law, developed democracy, institutional environment and changes),
  - **Deregulation** (excessive, non-selective, interest-motivated),
  - **Degeneration** (of the institutional environment, market structure and the healthy competition),
  - **Desinvestment** (mercantilist orientation in the selling of key economic facilities),
  - **Destructivity** (of the neo-liberal economic policies, government nomenclature),
  - **Differentiations** (social, between rich and poor),
  - **Deviations** (transition, institutional, motivational, enrichment at all costs, civilizational standards, freedom of choice)
  - **Disproportion** (economic, between promises and results),
  - **Domination** (politics over economics, institutional monism over pluralism, individualism over mass phenomena, monopoly, social pathology, totalitarianism),
  - **Discrimination** (against real economic freedom, middle class),
  - **Dictates** (of the new "elite" party coalition, the party in power, institutional imitation and improvisation),
  - **Determination** (philosophy of a leader),
  - **Demagogy** (of neo-liberal economic ideas and rhetorical alibi-liberals, alleged "reformist", which have abundantly profited in this rhetoric, switching hypothesis in terms of individualism and mass, etc.),
  - **Duality** (rhetoric and practice, individualism and mass, wealth and poverty, democracy and partyocracy, enjoyment and survival, protectionism and neo-liberalism),
  - **Dichotomy** (of the economic institute of state and market regulation),
  - **Dogmatism** (of neo-liberal recipes),
  - **Disorientation** (of economic agents, population),
  - **Disorganization** (of all social subsystems, lack of institutional control)
  - **Destabilization** (of the economy and society, reproduction of the crisis),
  - **Degradation** (of economic, social, moral values, economic freedom, private initiative and entrepreneurship),
  - **Denationalization** (carried out as a robbery) and
  - **Demotivation** (population).
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The above mentioned model is characterised by the functioning of „rapacious country”, which substituted the „country of development”, eroding the socialist institutes and creating an institutional vacuum. This has enabled the initial rapacious mass privatisation and later on the so called „privatisation of gains and nationalisation of losses” (May 2008, p. 7).

**Table 1: From socialist institutional monism, through post-socialist institutional vacuum to institutional nihilism**

command economy, planning naturalization of commodity-money relations, undeveloped and unorganized market, ideological and political subjectivism and dogmatism, directives, slogans and false promises	←	<b>Socialist experiment of institutional monism</b>	→	paternalism, employees' lack of interests, fictitious employment, false collectivism of organized economic and political coercion, totalitarianism reproduction in all areas of life and work, enthusiasm, persecution and sacrifice
↓				
focused on the narrow interests of new "elites", illusion and deception of institutional market monism, a complete distrust in the institute of state regulation, privatisation of gains and nationalisation of losses,	←	<b>Post-socialist transition as desired institutional change</b>	→	the crisis intensified and reproduced, the enormous polarization between the impoverished nation and the enriched rare privileged individuals, eroding the socialist institutes and creating an institutional vacuum
↓				
continuation of the authoritarian tradition, dominated by disrupted market institutional monism, making of illegitimate profit, the institutionalization of privileges, the re-combination of old and new forms of tyranny (the party, goals, slogans, promises), grabbing privatization, the theological replacement of goals of economic growth end development with the means of liberalization, privatization, democratization, institutionalization, and stabilization	←	<b>Mutant order</b>	→	the economic policy resembles the marionette of certain political parties and individuals, “alternative institutes” system (various socio-pathological crea- tions, a grey economy, and the con- tinued application of wrong monis- tic recipes of neo-liberal “shock therapy, compensates for the strictness of formal rules through non-performance, corruption, attenuation of property rights, the formation of various behaviour stereotypes, and the actuation of informal behaviours)
↓				

Quasi-institutionalization: flea market, black, grey and quasy-market, paternalism, nepotism, log rolling, lobbying, rent-oriented behaviour, naturalization	←	<b><i>Institutional vacuum</i></b>	→	Meta-institutionalisation: over-institutes and institutes of total control
↓				
deformations, disproportion, destabilization, demotivation, differentiations ...	←	<b><i>Specific brake transitional model „23 D”</i></b>	→	deficits, disinvestment, deregulation, dogmatism, dictates ...
↓				
long-term anti-institutional action, blockade of realistic institu- tional changes, reduced individualism (of the privileged),	←	<b><i>Institutional nihillism</i></b>	→	long-term effects of vulgarized neo-liberal institutional monism, long-term reproduction of institutional vacuum, the rhetoric of change has substituted for real change
↓				
socio-pathologic milieu, long-term destabilisation of economic systems, vulgarized individualism was imposed as a social and civilizational norm, “rapacious country” is substituted the „country of development”, paradoxical need for the public economic policy to serve private interests, the system of social values was disrupted				

Source: Authors

Populist and paternalistic tendencies are not avoided and the only unclearness is to which extent they compensated the primitivism of rapacious trends, monopolisation and criminalisation of post-socialist economies, accompanied with reduction of institutional changes (innovations), of economic freedoms and healthy market competition. One of the indicators of unsuccessfulness of post-socialist economic policies in the region can be a high level of systemic, political and economic risks, which are best illustrated by high interest rates, cautiousness of foreign investors and enormously low prices when privatising companies, hotels, banks, land and other property.

A theoretic approach implies state regulation of economic policy measures in all cases of inefficiency of market regulations, when economic growth and sustainable economic development are endangered. Since this type of interventions did not happen in the last two decades, the economic policy in that period cannot be called, at first glance, crisis policy. However, the practice shows something different: the complications of economic problems, erosion of state property and its decantation into the ownership of rare individuals (making of illegitimate profit), drastic social stratification and pauperization of citizens, high unemployment and fictive employment, flourishing of black and grey market, erosion of trade and industry and so on. A re-combined regime was created. It is a system in which the economic policy resembles the marionette of certain political parties and individuals and which serves, as it seems, only the preservation of power and increase of property of the few. Since institutional solutions did not work, the responsibility should lie with those who create the government policy (economic and other).



Mathematical modelling of economic reality has been in fashion for a long time, but has proven to be unsuccessful, regardless of the sympathies from the Nobel Committee. For the post-socialist transition, however, it is possible to make a simple mathematical model in the form of an equation, in which rich tycoons are approximately equal to the impoverishment of the people.

Extended (approximate) mathematical model could be:

$$L_p + H_a + S = W_{pi},$$

Where

$L_p$  stands for - the loss of people,

$H_a$  - for help from abroad,

$S$  - for smuggling, and

$W_{pi}$  - a wealth of privileged individuals,

The right side of the above equation would certainly include as a significant item the sum of structured privatized assets (mainly snatched). The capital can be discussed only in a small percentage, because much more lies in assets. This means that the privatized valuables are generally not placed in the entrepreneurial function. Hence the moral too many economic analysts, who uncritically argue that unemployment is one of the key economic issues. This is a consequence, but not the cause. It should be clear that there is no employment because there are no investments, and there are no investments because there is no capital. It is being kept in various passive forms of property. Foreign investments have in most cases proven to be disinvestments, or "privatized" through a variety of socio-pathological channels.

In this atmosphere of inequality, the overall damage to society and the marginal benefit to "capable" individuals have increased simultaneously, in the atmosphere of inequality in access to resources i.e, privileged choices.

#### **4. Obstructive mechanism of the post-socialist countries**

Those who are responsible for economic development have not contributed much to it. Nomenclatures of authorities have increased the degree of dominance of politics over economy, followed by democratic rhetoric. In this way, the lobbyists created the so-called "concealer's economy", with new economic elites controlled by political elites through log-rolling and other methods. These quasi-elites, supported by the apologetic, quasi-intellectual elites, represent the main obstacle to institutional and other changes.

Instead of pursuing real institutionalization, violence against it was carried out, under the banner of spreading individual freedoms. The fact that when freedom lacks moral, legal, environmental and other social restrictions, greed becomes the boot drive for the enrichment of individuals at any cost was forgotten. Economic behaviour is controlled by subjective regulators. Distorted and reduced individualism is being imposed as a social norm (Draskovic, V. and Draskovic, M., 2009a, pp. 22-25).

The interests of the quasi-elite dominated over rational economic and social choices. Paradoxically, the reduction of economic theory and practice has become a basic methodological tool for the suppression of institutionalization, particularly in terms of institutional competition. What have resulted is the excessive impoverishment of the people and an enormous enrichment of the minority, the destruction of the middle layer, the concentration of political and economic

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power, and the continuation of the authoritarian tradition. The existence of interest-based bonds between political leadership and the newly established “businessmen” is beyond any doubt.

The consequences are incalculable. The system of social values was disrupted. Party affiliation, authority, eligibility, and belief instead of professionalism were favoured over creativity, knowledge and science. The criminalization of the economy, widespread corruption and a range of socio-pathological phenomena have flourished. The rhetoric of change has substituted for real change – civilization change, institutional change and other kinds of fundamental changes. We are sinking into apathy, a lower standard of living and growing uncertainty. A vicious obstructive circle has been created.

A consistent development strategy and a successful economic policy cannot be created or implemented in these conditions. All conceptual elaborations are being blocked and modified through political decisions and choices that are motivated by the interests of “reformers”. Coping with economic and ideological myths and stereotypes continues to fail. The real need for institutionalization and institutional complementarities are being ignored along with the development of science, education, public interest, an effective owner as a mass phenomenon, and an efficient economy. Sustainable development is being delayed as is the creation of competitive skills and competences etc.

A detailed analysis would present an even darker image of the present and the future of the post-socialist countries. The past was also a crisis. The crisis began back in socialism (V. Draskovic, 2010, p. 8). The transition that took place was followed by nationalism, war, and economic blockades. Infrastructural, economic and market links in the region collapsed. The “reforms” began with an inexplicable, illegal and automatic conversion of public property into property of the state. Ownership transformation was further carried out through the reassignment of state resources and through various methods in favour of privileged individuals. Simultaneously, the dependence on foreign “teachers” and other debt increased. Gradually, Buharin’s prophecy of the modern form of slavery was being realized, as well as Lenin’s doctrine of imperialism and the Kondratjevlev’s theory of cyclical economic dynamics.

Post-socialist transition was conducted as a Velvet Revolution and as a response to the socialistic tyranny (the party, goals, slogans, promises). However, the re-combination of old and new forms of tyranny that was being enforced created new and larger problems, contradictions, crises, poverty, disintegration and uncertainty. Socialist vices were newly and dangerously packaged. The common denominator of socialist and post-socialist economic and social problems is the institutional vacuum dominated by disrupted market institutional monism. Proclaimed competition is replaced with various forms of monopoly.

#### **4.1 Alternative institutes system**

The economic development of post-socialist countries has occurred against the backdrop of a permanent conflict between the rhetoric of pluralist institutional changes and the monistic application of neo-liberal recipes for macroeconomic politics. The latter was motivated by the insatiable appetites of the government nomenclatures and their immediate surroundings. It represented the main obstacle to institutional changes, in addition to the socio-pathological milieu. It all resulted in a long-term destabilisation of the economic system, through a dearth of investments and an emphasis on consumption instead of production.

In literature, we can find hypothetical economic theories, which interpret and reveal politics as an imperfect process of interchange, such as Buchanan’s theory of social choice (regardless of the basic motif related to the negation of state control efficiency), economic theory of politics, and economic theory of bureaucracy. Buchanan writes about the political market, in which greedy individuals implement their interests but are unable to fulfil them through regular market

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interchange. It has been proven that political decisions have a great impact on the allocation of resources. In a “natural“ way, government passes into the hands of political leaders who are the representatives of small, privileged lobbying groups. Through activating the mechanism of privilege, their insatiable economic interests become fulfilled over time, and other groups get exploited (collectively alienated individuals, liberated from real and advocated economic freedoms).

Apophysis (Greek Apofazis - „negative“) transitional economies in literature are mainly associated with „inefficient institutes“, „irrational individual behaviours“, „abnormal banking system“, „insufficient market discipline“ and similar. The causes are mainly searched for in some general academic statements and characteristics, lacking the phenomenological examination of the problem roots, although they are visible to bare eye and pretty much unveiled by media. By their silence and inactivity (with some rare honourable exceptions) the academic sphere acts as their spiritual accomplice in all the negativities in question. On the other hand, being loud apologists, they would provide dogmatic interpretations for anything.

Half a century ago, in a famous discussion on the publication of the political economics textbook, J. V. Stalin correctly named it with an impolite term, the least rude substitution of which would be “thrashing”. The reason for apologies at that time was fear. Today, the reason for apologies is for demonic enrichment and efforts to secure the networking and lasting power (political, economic, social, scientific and other) and an unimagined paradise. Certain economic authors of neo-liberal post-socialist reforms, as a monument for their works and “success”, have built their own (private) universities and faculties (together with political mentors and messiahs), while still emphasising that they have set up their “schools of economics”.

In the post-socialist period, an alternative institutes system has been created. It comprises various socio-pathological creations, a grey economy, and the continued application of wrong monistic recipes of neo-liberal “shock therapy.” Moreover, it compensates for the strictness of formal rules through non-performance, corruption, attenuation of property rights, the formation of various behaviour stereotypes, and the actuation of informal behaviours (spreading institutional conflicts), etc.

The effects of the alternative institutes system have been especially visible in the grabbing privatization, which still hasn’t been completed in most post-socialist countries. And being conducted hastily and unevenly, it has resulted in the enrichment of a minority at the expense of the vast majority of common people. In addition, it is quite clear that the newly enriched privatized only what common people lost, since the wealth neither comes from nowhere nor without reason (work, knowledge, innovation, heritage etc.), nor from abroad.

The consequences are intimidating; we find them every day in media, where their real causes can be named and perceived. Institutional changes in post-socialist countries were transitory, structurally, qualitatively, quantitatively and functionally falling behind other transitional changes, rather than being their support, stimulant, and insurer. There was a huge gap between formally established alternative economic institutes and economic behaviour in practice, which was far away from the norm (Draskovic, V., 2010, pp. 9-10).

Many market institutes were not formed, including even some of its main segments. Also, market infrastructure and culture were not significantly improved. Integral market is still a figurative noun. Many market substitutes routed mutant and pseudo-market structures of alternative types. They just imitated market infrastructure: flea markets, black, grey and quasi-markets (which are necessary for survival for most of the population), and monopolies (which benefit minorities). Competition is reduced by these primitive market structures. Competition is reduced to the above mentioned primitive market structures. All of the market relation analyses in most of the post-socialist countries show that monopolies fully used all the chances they had.

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Turning the essence of institutionalization upside down as the social-economic “technology, and using its basic characteristics (subjectivity to manipulation, lack of “project documentation”, delivery deadlines, and guaranteed quality of the final “product”), quasi-reformers and quasi-institutionalists, supported by the postulate of methodological individualism (also a part of neo-institutionalism), put the individual “efficiency and rationality” above the social. Then, by various methods and procedures, they transferred a significant part of the social (state) property into private. In this two-decade process, many of the state institutes failed. Neither practice nor numerous theoretic studies point to the massive economic efficiency (as the target function), justification and consistence of the privatization that has followed the “naive” (privileged and of a dominant interest) strategy for the institutional transplantation of the allegedly western and institutionally monistic “role models”. The analyses of specific data on the privatization or private sector efficiency growth compared to GDP, confirms our estimate, as well as the lines by P. Murrell (1996, p. 31) saying that it is

*“The most dramatic episode of economic liberalization in economic history”*

From their position of easily gained power, the out-of-the-market enriched individuals standing among the post-socialist “reformers” today, arrogantly, vainly and unconvincingly provide explanations for the failure. Those meaning well are clear that the implementation of any kind of code of conduct can be multivariate, depending on the institutional and cultural environment factors, but primarily on the way the dominant political interests are implemented by the ruling party (or coalition). This is pointed out even within the opening lecture of economic textbooks regarding the domination of politics over economy. The “*institute growing*” strategy (Polterovich, 2001) doesn’t fit in here. On the contrary, it is being absolutely annulled by the “*alternative institutes*” system. The causes are always the same – politics and interests, and the reproduction methodology of institutional dysfunction (“alternativeness”), as well as paternalism, nepotism, passivity, the tradition to obstruct legal norms and the possibilities for safe and well-organized manipulations and compensations, log rolling, lobbying, and rent-oriented behaviour, etc.

Is this why the grabbing practice and apologetic economic theory have destructively rejected Hegel’s saying that institutes are the “*firm foundation of the state*”? The state was simply treated as a public property that needed to be devastated and reduced to the so-called “micro state,” since this is the precondition for the rapid enrichment and long-term preservation of wealth. Under the stated syntagm, economic radicalism was conducted; therefore it is not a surprise to have such extremely poor outputs of the state regulations institute in the period of transition of the Balkans states and others. Following J. Buchanan, more and more agree that political competence is not regulated through the election rules and that politicians compete for gaining private rent (Earle et al. 1996, p. 632). The post-socialist states haven’t been an exception.

Nominally (formally) there are democratic and economic institutes. Unfortunately, they only serve as a folding screen for exercising and fulfilling the interests of the distributional coalition, which consist of certain members of the government nomenclature and their close, devoted, and newly enriched “businessmen” (Draskovic, V., 2010, p. 11).

They are often said and written to be related with mafia structures. These new “elites” are not interested in the strengthening of the infrastructure and institutional power of the state, society or economy. They created the system of „alternative institutes”. That way the market is being cartelized and, like a parasite, it develops back-influence on public policies, substitutes the promised competitive and integral market with monopolistic quasi-competition and illegal ways of privatizing state property and/or rent. Individuals „create” enormous wealth and enlarge it to the extent threatening to in, various ways, compel the vast majority of the population. Their network-

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ing, both formal and informal power is being replicated and it disables the realistic institutionalization, mostly determined and dosed by the ruling (coalition) parties.

The “alternative” institutes turn institutionalisation into its opposite. Instead of stabilizing society, they have destabilized it; instead of incrementally creating institutional changes, they have created alternative quasi-institutionalisation. The domination of political (party) interests has functionally subordinated all economic institutes, especially in terms of the allocation of property rights. All significant economic processes and policies are being controlled. What is being enforced is the super ordination of alternative informal codes of conduct over formal institutes, with parallel processes of great interests. The economic imperialism of neo-institutional theory has been literally copied and pasted into post-socialist practice.

There is no doubt that the economic institute of the state government during the transition period was an “alternatively” directed instrument serving certain beneficiaries (the privileged ones), while performing its patronizing and redistributive role in a vulgarized way under a form of neo-liberal strategy.

### **5. Priority of pluralistic institutional development**

Totalitarian party control rooted in a governmental structure that rests on the principle of log-rolling, narrow lobbying interests, and subjective behavioural regulators, disabled institutional control and adequate competition. The privileged “players” and their strong “connections” dominated over institutes (rules of the game). It deformed and reduced the choices of economic agents, the economic reality, and the institutional structure. The adoption of certain measures of economic policy was often influenced by powerful administrative and bureaucratic groups.

Violence against institutionalization, rather than real institutionalization, was carried out. Institutional changes are significantly behind other transitional changes in terms of structure, quality, quantity, functionality, and time. The strategic importance of real institutional change and its primary role in relation to economic policy was neglected, especially in relation to self-sufficient, institutionally unfounded neo-liberal economic policy, which did not solve the key problems of transition over a long period of time. The priority of economic institutes in relation to economic freedoms was also neglected. Because they stand for a direct opposite of unlimited political power, institutes stimulate the creation, motivation, initiative, entrepreneurship, interests, and healthy competition, while disabling the institutionalization of privileges and procedural forms of domination and totalitarianism (Draskovic, V., 2003, p. 30).

Key control and other instruments of socialist state regulation were rapidly destroyed, whereas new instruments were insufficiently formed and they not adapted to meet market principles and requirements, even in their reduced form. Rapid and non-selective removal of state property and its conversion into private ownership has further weakened the institute of state regulation. The main levers of the economic system were reduced while their un-systematic features were increased; the economy was criminalized and many forms of quasi-institutionalization were expanded. Corrective activity of state regulation “from above” is absent. This should accelerate the development of other economic institutes (the market regulation and property rights), which were separately developed in monistic and meta-static fashion. The motivations and entrepreneurial initiatives of privileged individuals were cultivated.

Privatization was not conducted in accordance with certain legal and economic criteria; therefore it did not create the conditions for increasing economic efficiency and freedom. In fact, privatization usually presents insufficient conditions for economic efficiency because its main promoters are competition, management improvement, and the efficient and flexible regulation of the state. Competition is reduced to primitive market structures whereas the monopolies take advantage of all the opportunities made possible for privileged individuals.

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Transition dogmas replaced the socialist ones and altered value criteria, which ranged from 'shock therapy' (through the theological replacement of goals of economic growth end development with the means of liberalization, privatization, democratization, institutionalization, and stabilization) to the socio-pathological demagoguery and rhetoric, which were used to create the alleged real institutional changes (Draskovic, V., 2010, p. 12).

Economic institutes have been replaced by pseudo-forms (imitation and improvisation), such as meta-institutionalization (the creation of over-institutes and institutes of total control), institutional monism ("messianic" uncontrolled market without parallel formation of complementary institutes), and quasi-institutionalization (paternalism, monopoly, lobbying, social pathology, grey economy, annuity-oriented behaviour, naturalization, street currency conversion, dominance of politics over economy, predacious privatization – "pocketisation", privileged "newly established entrepreneurs" as alleged "efficient owners" etc.). The effect of these obstructive factors in the period of post-socialist transition was synergistic and destructive.

Pseudo-institutional violence (political, economic and party) of an organized minority (who can do what they want, where they want, when they want, and how they want) over a disorganized majority, verified the non-market appropriation of enormous proportions. Therefore, some authors identify neo-liberalism with neo-darwinism (Kulic, 2000, p 867), even with neo-imperialism.

Institutional synergism (pluralism) is the only real, possible, and proven condition and priority for economic development, based on real (rather than rhetorical) economic freedoms, protected property rights and contracts, entrepreneurship, and healthy market competition. It allows the individualism of all, mass economic freedom, private property and efficient entrepreneurship. Because the goal of economic institutions is to serve all individuals in the society (not just the privileged ones), individual and collective are inseparable components of pluralistic institutional arrangements and the overall system of contemporary developed economies.

In the transition countries, democratic institutions exist nominally (formally). They sometimes serve as a cover (valve) for the expression and realization of the interests of distribution coalitions, which consist of individual members of the old nomenclature, newly composed businessmen, and oligarchy and mafia structures. These new "elites" have interest not in strengthening the institutional state power and democratic procedures, but in preserving the monopoly positions, non-economic privileges and various pseudo-market structures. They use a whole variety of elements of social pathology from lobbyism, log-rolling with a ruling nomenclature and asymmetric information through occupying strategic positions, to the use of various forms of power and networks of informal groups. In this way, their annuity-oriented behavior is being reproduced.

## **6. Institutional nihilism and vulgarized neo-liberal (nihilistic) ideology**

The most consistent positions regarding market self-sufficiency and spontaneous "messiah-ship" have been held by the neoclassicists and quasi neo-liberals for decades. They have been writing that all economic problems shall be resolved by price, competition, private property, efficient owners, and entrepreneurship.

What prices - the monopolistic ones? Non-market purchase of factories, land, businesses, facilities and other entities at extremely low prices dominated. Later, these same entities were sold at much higher prices, according to the daily media reports, despite the law, which requires that privatized assets be sold only at the market price of that time. However, in countries where institutional nihilism rules, few comply with the law.

What competition? How can a robbed and impoverished nation compete with rich tycoons?

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What private property? The one privatized by robbing?

Who are the efficient owners? The privileged ones enriched by robbing the state property? A huge amount of capital has been converted into "dead" assets, which are not being transformed into investments, new factories, businesses and new possibilities for employment.

What entrepreneurship? Privileged? And where is the market balance? However abstract it may be in terms of terminology and theory, it still personifies an economic harmony, and not the existing anarchy reproduced for years and decades.

What are the (secret, tycoon) contracts like, through which the people, economy and state are being impoverished, for the benefit of the undersigned - domestic "elites" and foreign, mainly unknown investors? And how much social pathology do they contain?

Where is the welfare and justice that must to be provided by the state, according to the institutionalists? In particular, where is the efficiency of the market? Where is the state as a guarantor of economic freedom and equal implementation of formal rules of economic game?

Let us remember what the Nobel laureate D. North (1981, p 32) wrote three decades ago:

*"The dominant goal of the capitalist state is the construction of such institutional structures, especially the structure of ownership rights, using which it achieves maximization of income (social welfare- remark by Authors) and a high degree of freedom" (through minimization of costs for specification and protection of property rights - remark by Authors).*

Where are those economic freedoms?

Even if we ignore economic functions of government (in the part of macroeconomic policy), we must wonder: why has its legal function failed, without even being questioned by anyone? It is clear that the political decisions influence the economic decisions that were focused on maximizing personal advantage of privileged individuals.

Neither the fiasco of the market, nor all the strains of the market, or even many economic crises that build upon each other, or even fatal consequences of the transition are sufficient to understand the illusion and deception of institutional market monism. Consistent application of even that part of the state regulation referring to the rules of conduct (probably equal for all?) would be sufficient to eliminate all irregularities, negativity and deformation that marked the "rule of law" and "entrepreneurship policy" of neo-liberal "reformers."

But let us not forget, those very rules are the institutes themselves. Code of Conduct is the synonym for institutional pluralism. Here lies the main methodological paradox and essence of fraud: the code of conduct should exist, but the government that controls it tolerates (and allows) departures from it to some (the privileged ones). The above paradox gave birth to a new (logically derived) paradox: An order has been created (predatory model) in which none of the institutional monism's acted consistently: neither the market regulation, nor government regulation. The transitional logic of social changes has favoured the establishment of this model, dominated by the formation of recombined meta-institute of completely controlled by the ruling nomenclatures.

The neo-liberals that constantly refer to F. Hayek are forgetting that he has clearly written about the necessity of acting according to the rules, because without them market coordination presents a hardly attainable process. Among other things, it proves neo-liberal arbitrariness, bluff, fiction and neo-bolshevism (in terms of: saying one thing, thinking something quite different while doing the third), which are one-way directed towards the achievement of personal material inter-

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ests. All economic theories<sup>1</sup>, in this way or another, refer to adherence to certain rules, linking economic coordination with them. Post-socialist neo-liberals are referring only to phrases. And to the establishment of the total control rules by the privileged non-marketable enriched "elite". Unfortunately, this "order" has been functioning for two decades. Within this order the individualism of the privileged substituted mass individualism (of all) - in all important segments of society and economy: the economic freedom, entrepreneurship, private property, etc. In this way, the choice of all has been reduced to individual choices. Can the concept of the freedom of choice be reduced to the freedom of choice of the few, whoever they are? This is only possible in the chaos of disrupted and destroyed value criteria. A Comparison with developed economies and societies is the best indicator of transitional institutional nihilism, which is formed under the dominant influence of vulgarized neo-liberal (nihilistic) ideology.

## 7. Conclusion

The modernization of every transitional economy has its own features and specific development problems and priorities. Their main similarities would be: a) long-term and inertial reproduction of crisis development, and b) conflicts between formal and informal institutes as their own generator of economic and social crisis.

There is one mutual element that each post-socialist economy will, sooner or later, have to change. It is the universal mechanism of pluralistic institutional coordination. Many authors rightfully emphasize the significance of coordination as the process of mutual harmonization of certain economic institutes of market regulations and state regulations. These authors directly advocate for equality, inter-conditionality and mutual effects of economic institutions as constituents of the mutual economic mechanism of coordination and regulation. In other words, they correctly detect the imperative of institutional pluralism for institutional monism.

The findings of economic science and the reality of economic crisis have shown that it is inevitable to have regulation and control over market mechanisms (i.e. the institutionalization of the market as economic institute) if you want to avoid serious economic problems, crisis, unemployment, impoverishment and uncertainty (i.e. reduce the consequences of uncontrolled market actions). With an organizational, institutional and normative vacuum in the post-socialist countries, it has not been possible to set up efficient economic institutes. The government structures chose to recombine institutes, which enabled the establishment of various forms of quasi-institutional relationships. Focusing on institutional monism, the narrowly privileged, and the entrepreneurial initiative of rare individuals has led to immeasurable and long-term crisis consequences.

The story of pluralism (of interests, politics, democracy, freedoms, media, etc.) has been replaced by the materialistic cynicism of the newly-composed "elites", party centralization and nearly total control (over political and economic processes), which has enabled privileges, the en-

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<sup>1</sup> "Neo-liberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defense, police and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit" (Harvey 2005, p. 2).

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richment of an organized minority, and the impoverishment of the unorganized majority. The story of institutionalization has turned into the opposite of institutionalization. The natural environment has been destabilized instead of stabilized. Instead of incremental institutional changes, these changes have rapidly produced growing insecurity, social pathology and crisis.

Institutional innovations are, when it comes to timing, structure, quality, quantity and functionality, undeveloped compared to other transitional changes, instead of being their foundation, stimulant and a guarantee. Only institutional innovations can neutralize party-lobby structures and can activate missing control mechanisms, rule of law, economic freedoms and efficient instruments of economic policy. Institutional innovations imply civilizational norms, placing economic behaviour in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favour healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market - yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behaviour, institutional standards, protected and well specified property rights.

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