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**DEVELOPMENT DIPTYCH IN THE POST-SOCIALIST GROWTH
EXPERIENCE
–WITH REFERENCE TO SERBIA –**

Abstract

An unusual, seemingly incompatible combination of facts has occurred in a not so small number of post-socialist economies. All of them switched from collectivistically structured, administratively ruled economies to the market based, appropriately decentralized institutional systems. The firmly held theory and a mountain of empirical evidence implied that this historical institutional shift would greatly enhance efficiency of the economies and their badly needed growth potential. The actual movements did not follow the theoretically indicated directions and the performance of the newly reformed economies left much to be desired. Some episodes of the renowned extensive socialist growth delivered the rate of growth of the economy which turned out incomparably higher in comparison with current post-socialist times. Similarly and in line with that, the output of basic necessities expanded much more rapidly, housing construction offered incomparably larger number of apartments and social policy system seems to have taken a more conscientious and more efficient care of the needed. Finding a job for people of quite different educational profiles was much easier and more reliable.

On account of what is just enumerated, and equally discernible, on account of many unspecified results and thereby implied standards, the public developed the beliefs that the old collectivist system had been superior and that reforming economies towards decentralized structures and market coordination might have been a big strategic mistake. Public opinion surveys revealed high evaluation of the old socialist order and intensive yearning for bygone ways and means of going about material wherewithals and necessities of daily life.

The paper comes to grips with the convictions relating to the alleged superiority of the socialist institutional order. The main point in proving that the old systems had in fact been inferior consists in underlining their unsustainability. The high rates of growth achieved in some past periods are not the true indicators of the old systems' efficiency because they could not

be maintained permanently. The very fact of the massive breakdowns of socialist arrangements is the best proof of their inferiority. A high rate which could only be maintained in the course of a limited period is neither superior nor preferable to the lower rate which is sustainable for an indefinite future. It is shown that formerly prevailing extensive growth unfolds through mechanisms which inevitably lead to irreparable deceleration and would ultimately end with secular stagnation.

As stagnation is not acceptable as a systemic option, the arrangements ruling in socialist societies had to be replaced by the lump. The important fact is that dramatic slackening of the development trends began while socialist systems were in full operation and that low rates of growth cannot therefore be ascribed to the institutions which were introduced visibly later. Historic institutional turnaround pulling the economies out of centralist shackles came as a consequence of the already languished and developmentally blocked conspicuously paralyzed socialist systems; institutional innovations are not the cause but the result of the previously disabled and hopelessly stopped socialist development. Moreover, there are growth hampering and efficiency reducing legacies deriving directly from previous systems and policies, so that much of what is presently perceived as unsatisfactory – indeed paradoxically – is not the effect of the presently functioning system but arrives as a set of consequences of a nonexistent system, of the past socialist order which generates costs and losses even following its historic, definitive demise.

The inefficiency of the socialist systems is analyzed on an additional plane. Having been based on coercion and terror, such systems have, generally speaking, imposed enormous costs in terms of human sufferings, annulment of human freedoms, impairing dignity and trampling on citizens' rights which constitute an indispensable pillar of civilization. The prototype of the collectivist system is estimated to have, in one way or the other, annihilated between 12 and 15 million people, most of them representing nonsensically destroyed innocent lives. The system imposed and operating with so high and such costs cannot be sustainable and has to meet its historical debacle. With unbelievable waste in all principal walks of life it cannot survive. And – if it could, that would be a pity, a veritable evil course in the unfolding of civilization.

Key words: Institutions, rhythm of institutional change, revolution vs. step-by-step change, reforms, centralism, decentralization, socialism, collectivism, self-management, coercion, political power as a source of inequality, breakdown of the systems, economic development, extensive development, economic efficiency, rate of technical progress.

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Introduction

A somewhat unusual title of this paper calls for explanation if not for some sort of justification. The thick-volume dictionary definition of the work *diptych* reads as follows: *a painting or carving on two panels usually hinged like a book*. The binary structure of the paper could and should be understood in three ways. Firstly, it is intended to present both the series of institutional changes, or, for short, institutional development. Along with such analysis of systemic changes, corresponding economic expansion as seen through increase of the standard macroeconomic aggregates, above all the Gross Domestic Product (GDP) and particularly the long run changes in its rate of growth. Secondly, the analysis is binary in the sense of contrasting and comparing economic performance in two consecutive periods, the one prior 1990 with basically collectivist economic system dominated by the administrative regulation and extensive (as well as intensive) governmental interference in economic processes; and the following, which was supposed predominantly to rely on the market, with accompanying decentralization and enhanced autonomy of economic agents. And, thirdly, institutional orders of socialist societies, particularly their economic systems, are examined in two parallel analytical planes: a general overview of collectivist authoritarian systems is given in broad brushes with the intent to single out the basic common traits of economic and partly social authoritarianism (*genus proximum* of the socialist systems as we experienced them) and, then, a number of specific feature and idiosyncratic policy choices which sets then existing Yugoslav institutional system apart and helps understanding particular, visibly peculiar features of post-socialist development in some of the ex-Yugoslav republics.

Let the purpose and the key point be immediately stated. There is a strong conviction – widely shared among the members of the economic profession and, somewhat less and yet significantly, among the general public – that market based economic systems are undeniably and markedly superior to their administratively structured and governmentally directed counterparts and that the whole point of turning to a market system, following the breakdown of the socialist collectivist order, is adopting and building a more efficient and therefore vastly superior institutional

machinery. The definitive abandonment of the anachronistic and conspicuously ailing socialist institutional framework was obviously implied. Yet, despite the shift to an institutional arrangement expected and believed to be incomparably more efficient, the available evidence appears to be grossly incompatible with such expectations. The rate of growth of the GDP was in the socialist times – at least during the significant part of the collectivist period – typically around 6% and in a number of years even exceeded 8% - whereas in the post-socialist times in all successor states of the former SFRJ it plunged to the level of some 2-3% with clearly revealed tendency to stay there for an indefinite time. In the first half of 2017 Serbian prime minister proudly announced the expected rate of the GDP growth of 3% which in August 2017 had to be lowered to 2.3% with economists expressing resolute doubts about likelihood of realization of even this diminished target.

Other macroeconomic indicators display a similar weird pattern of change. Residential construction, to take a telling illustration, was in Serbia – depending on the observed periods and selected years – some 3-5 bigger during socialist times than it is now. Could one think of any consumer good which generally represents a more pressing need and a higher priority than houses and apartments, the homes still so ardently desired and dreamt off by so many people? In 1950's and 1960's a yearly increase of real personal incomes of some 4-5% used to be taken for granted and to be treated as a normal ingredient of everyday life, whereas any announcement of a similar increase would today be heard as a piece of science fiction. Following the graduation, the author of this text was rewarded with the exciting possibility of choosing from among three highly prestigious, truly attractive and verily promising jobs, whereas his daughter spent two years with the doctorate of economics and is unemployed right now (September 2017) having been discharged as a „technologically rendered over plus staff member“. She has some chance to get a job in a private university, where for long months salaries had been paid only partially, with a number of them having been renounced by the employees.

The described set of circumstances is queer and challenging. We are confronted with an unexpected contradiction between a clear and consistent, rigorously proven set of theoretical propositions and bulk of empirical evidence which apparently flies in the face of these, generally taken as undeniable, theoretical propositions. How come that institutional arrangements theoretically proven as undeniably rational, i.e. by far more efficient in the realm of allocation and, to some extent conditionally, even in the field of economic dynamics, deliver such an unsatisfactory performance,

inferior to the abandoned system of government dominated and to a marked degree administratively run machinery?

This is a hard and overly complicated question. It would be impertinent and over pretentious on the part of this author to claim the working out of a clear and unambiguous answer to it. Quite to the contrary, this discussion will be framed more as a set of questions and tentative hypotheses, with the hope that others might be drawn into these considerations and contribute to further elucidation of the issue. This position is akin to the stand of the alleged famous professor who inserted into the examination forms for his students some questions to which he had not known the answers in the hope that these answers would be provided by the students. In the hazardous, occasionally desperate attempt that the collectivist system of our past is *not* superior to the market economies in the initial stages of the making, significant efforts will be invested in demonstration and argued proofs that (1) occasionally high performances of the past socialist systems were not sustainable and as such cannot be acceptable as an indicator of their genuine efficiency and true social rationality, and (2) such systems left behind themselves perilous legacies making it impossible for the market economies to realize fully their actual efficiency and growth potential; much of what seems and in fact is inadequate in performance of newly installed market economies is in essence the consequence of the demised collectivistic ally organized systems and their destructive impact on future wealth and income, with damages and losses faced and suffered not only now, but also in disturbingly long series of future periods.

Economists will hopefully not be shocked by such reasoning as they are used to various time lags and even to their long series as well as to temporal interdependency of economic processes and social phenomena. To argue seriously such a proposition, it is unavoidable to write extensively about the constructive errors and deep irrationalities of the centralist, administratively managed systems, about their misfired outings and failed undertakings. But it must be emphasized most emphatically that this paper is *not* about such systems; it is about their deadly legacies and long lived lethal consequences causing enormous damages today and for a disagreeably long time to come. It is an attempt to provide an answer to the immeasurably important question of why the recovery of the post-socialist economies unfolds so slowly and why the presently dissatisfying performance could and should be to a large extent ascribed to the past collectivist systems. Those systems are gone, but their long, heavy shadows will be with us for a considerable future.

This paper, attempting to be a diptych, is meant to be organized in two parts. The first part will be devoted to the general features of the socialized, government dominated and administratively run systems. The arrangements based on central planning and state property, as prototypes of the genuine (and failed) socialist systems, which for a while produced marked, occasionally spectacular results, will be described first. Clearly, only the truly remarkable features will be singled out, as it would be superfluous and futile to attempt their fuller analysis in a brief piece as this one. The key feature of these systems, the one that might offer a good deal of the answer to the above challenging riddle is the *unsustainability* of both the performance of these systems and of the systems themselves.

Having absolved the issue of these systems in general terms, more concrete discussion will be developed regarding the experience of relying on such, collectively structured and to a large extent administratively steered systems in Serbia, i.e. in SFRJ, whose part Serbia had been for somewhat less than half century. The underlying idea of this, again binary course of analysis, is that, despite known peculiarities of the Yugoslav economic system, it shares some deep-seated structural characteristics with the family of centrally planned economies. These characteristics derive from a fundamental trait of all socialist systems – the absence of private property as the principal form of ownership and a number of other features emanating from this verily determining one. The absence of private property implied impossibility of consistent, complete decentralization and therefore the nonexistence of authentic autonomy of economic subjects as genuine participants in the world of market transactions. In other words, there is a *genus proximum* encompassing various socialist systems including the varieties adopted in SFRJ, and there are various kinds of systems identified by their *differentia specifica*. The position is taken in this examination of various institutional arrangements that belonging to the said *genus proximum* goes a long way in explaining the above raised contradiction between theoretical predictions of the multiple varieties of the newly adopted decentralized system and the empirically observed performance measures. That in itself is the root cause of the said efficiency contrasts between earlier socialist set-ups and subsequent market based arrangements.

Beside the lack of private ownership as the dominant form of ownership, all systems in the socialized *genus proximum* share unsustainability as their common showing. Performance delivered during socialist times is thus unrepresentative and cannot be taken as the lasting trait of those systems. Moreover, despite differences in the achieved rates of

growth, or paradoxically because of them, growth performance of socialist arrangements is incomparable with performance of the post-socialist systems. Differences in the rate of growth in two successive relevant periods tell nothing about comparative efficiency. A significantly higher but unsustainable rate of growth is not necessarily the indication of superior efficiency or higher dynamic potential of the demised collectivist arrangement. The rate that is doomed to fall markedly in the future cannot be considered as generally more desirable than a much lower but sustainable growth rate secured by a different kind of institutional arrangements...

The lack of sustainability implies by itself the necessity of future deceleration as the sources of growth which are limited in number, scope and time become preempted. There is more to it however. Exploitation of these unrepeatable, one-shot sources of growth leaves to the future development policies the heritage of growth constraining and progress hampering consequences and this socialist heritage will be examined from the point of view of ways and patterns inhibiting development quite independently of preemption of the once-and-for-all – unique and unrepeatable – sources of growth, the preemption having been carried out by socialist policies.

As it turns out there are several mechanisms through which socialist development strategies accelerated growth *for limited time intervals* but left legacies hampering future development. The lines along which socialist growth accelerations ended with inevitable and oft dramatic decelerations are not completely separated and at some points and intervals cross and even coincide with each other. However, taken in their entirety, they do remain separate and call for distinct analyses. As the stress on the word *sustainability* suggests, the systems – both the *genus proximum* and those marked with various forms of *differentia specifica* – will not be analyzed generally and comprehensively but only from the point of view of legacies left to the post-socialist past and acting as the long lasting constraints on the current and future economic development.

1. *Extremely Totalitarian System as a Prototype of the Family*

No real system is an exact and consistent realization of any pure theoretical model. Reality appears to be an approximation to the abstract theoretical models, in a way contrary to the conventional understanding of relationships between analytical abstractions and segments of reality whose reflections the corresponding models purport to be. The prototype in this analysis is the Soviet model of social organization as shaped through and by

the October revolution. Quite clearly, this model is not a prototype in the sense of theoretical purity because in practice it certainly did not correspond to any perfectly clean picture of social organization and because it changed noticeably in time. It is taken here as the prototype because it appeared in time as the first of the relevant category and because other, subsequently created systems were to a significant degree modeled after it. As indicated above, whatever is about to be elaborated here is not aimed to give complete picture of these models. Rather, a number of verily conspicuous, obviously selected features will be selected and selection will run along the line of the subject matter of this paper: deceleration of development and the stark contrast in performance between the former collectivist and the current market-based system. It is understood that not all characteristics worth considering will be taken into account but just a sample of them, with choice containing some elements of randomness but hopefully serving the purpose nevertheless.

1.1 Illegitimacy of the System and its Compulsory Nature

By illegitimacy is meant the nature of the series of events through which the pioneering Soviet system was created and through which its founding fathers came to introduce its complete domination over the Society. In the course of the World War I the Russian society underwent a process of systematic, uninterrupted weakening, with all of its important segments and institutions having been subject to a steady, continuous degeneration. The war shaken society suffered conspicuous degradation of all of its regulating mechanisms. People were frustrated, disappointed and enraged. The rules of behavior were broken generally and increasingly: the peasants raised claims against the owners of the large estates, the workers began to ignore the rules of the internal discipline, the security and police apparatus functioned less and less reliably and, worse than anything, soldiers started to ignore the commands of the authorized officers and the country headed towards a crashing defeat. The society was weakened at all fronts and, even more tragically, the authorities found themselves in a dramatic process of losing power in their respective fields of functioning. Unrevealed and unpunished lootings became the order of the day.

In such tragic situation, with all control mechanisms and protective machinery hopelessly weakened the governmental authority was said to lie in the street and any at least partly organized minority was able to appropriate it rather easily and consolidate its grip over the tools of rule. That is exactly what the Bolsheviks did in the „great“ October revolution; that was a decisive victory of the negligible but relatively well organized minority over the rest of the society, in fact over the society at large. Rid

(Reed) notoriously inclined in favor of Lenin and Bolshevik ruling elite, expressed himself explicitly about the small size of the Lenin's party by characterizing it as a *small political sect* (Rid 1967/1919/, p. 21). The disappointed and angered population, deprived of elementary necessities for an unbearably long time, was highly receptive towards irresponsible promises and the Bolsheviks didn't hesitate to pour promises in unlimited quantities. The initiated saw immediately the untruthfulness of these promises and the absence of any hopes of them ever being fulfilled. But the large masses of the populace, with their poor and unreliable information and low level of political culture, in the state of utter hopelessness *accepted them enthusiastically as a sort of portent of Second Coming* and gave them support and provided the following which hardly anybody could have anticipated. By the time the falseness of such promises became evident and a wave of bitter disappointment ensued, the Bolsheviks consolidated their power, introduced the reins of terror, made it impossible for any meaningful opposition to develop and imposed themselves as the brutal, uncompromising and over centralized power, perhaps more authoritarian than Russia ever had in her notoriously tumultuous history. That was a battle sadly lost by the entire society; the negligibly small minority conquered the society as a whole. Some readers might disagree with these brusque, categorical assessments. In reply to eventual critical remarks it could be said that these findings are based on credible historical sources (Geler and Nekrics 2000/1976/), Deutscher (1977/1967/), Cohen (1980/1973/), Mandel'stam (1964/1963/)... These sources are prepared at the highest professional level, including technicalities of citing and referencing, they appear to be admirably consistent with each other and, even more important, and they are consistent with general knowledge, acquired quite independently of them.

It is only to such a mechanism based on lies and scrupleless manipulation that the governing authority could have been taken. Such seizing of power falls into a rather general pattern of empirical regularities according to which the extreme political forces get their historical, almost unique opportunities for taking over the control of government in times of extreme disaster and perilous national calamity. It should be particularly stressed that shortly upon seizing of power but not before they fastened their grip upon the country a massive confiscation and plundering of wheat and other foodstuffs was launched, with indescribable cruelty and enormous human cost. In a country with peasants as a preponderant majority the policy of taking over the land and forcing peasants into collective organizations could under no circumstances acquire majority of votes in any sort of democratic political competition. It could not be more evident that

such a system, inimical towards vast majority of population, could win the power and keep on holding it only with unbridled coercion and with terror that was to leave lasting imprints on the society. In the meantime the allegedly collective rule through the party governing body predictably and with inevitable regularity changes into personal rule, the commanding role of the dominating personality. Such changes are best testified by the dominating personality itself, in this case Lenin, who implied by many of his public statements that he is and should be exclusively entitled to take the key strategic decisions and stay in charge as long as he deems it necessary. He was clear in emphasizing that his exclusive commanding position was not just a matter of temporary expedience but made it known that he had been determined to keep it that way into indefinite future (Milošević 2000, p. 766).

Two basic contradictions reflect visibly the dictatorial nature of the regime. The first one consists in proclaiming dictatorship (of the proletariat) as a democratic system despite the fact that the two political orders are evident logical opposites. True, there are attempts to define democracy on the basis of the intensity and the magnitude of the support of the regime on the part of the populace (Nolte (1990/1963, p. 11). However, this definition is logically deficient and functionally inapplicable: whatever the support to a given political option in a given time, it is not fixed for good and changes over years and decades. A quality determining attribute of a segment of social reality cannot be defined on the ground of a characteristic which appears to be subject to permanent change and not infrequently even volatile.

The second contradiction refers to the proverbial withering away of the state. On the one hand, this proposition is accepted as one of the Marxist evangelical commandments and on the other hand all political potential is invested into *strengthening of the state*, which commitment found its place not only in the practice but also in the theory. Dictatorship of the proletariat was the rule of the top governing body of the party and had to be organizationally implemented through a characteristic body – the secret police known under a number of equally terrifying names: the CSEKA, the NKVD, and the KGB. Those frightening organizations did not figure just as an implementing arm of the Party but represented the inevitable levers of its ruling directorate and rose themselves to the position of the creator and the interpreter of its commitments and policies. Lenin himself is famed for his assertion that every communist has to be a good *checkist*, the secret police activist (Geler and Nekrics 2000/1986/, p. 653).

Terror simply had to be the form of existence and the *modus operandi* of the system as the vast majority of the peasant-dominated society had to be against the rule which had been so inimical to it. Kronstadt uprising (Geler and Nekrics 2000/1986/, pp. 95-97) and numerous and almost uninterrupted workers uprisings (Geler and Nekrics, *passim*) testify vividly the intensity of dissent and the scope of social disagreement regarding the rule of that political minority, mistakenly named the Bolshevik (i.e. the Majority) Party. Let there be brought out just some details illustrating and practically proving the statement about the fundamental conflict between the ruling core of the Communist Party and the society at large. Lenin is personally and particularly known for his insistence on shootings and the orders that the numbers of shot be increased (Geler and Nekrics 2000/1986/, 126). He is also known for having energetically complained about insufficient capacity of jails and concentration camps which *he* introduced into the Soviet penal system. This system proved a valuable toolkit of power which Stalin subsequently developed and greatly increased to make it a formidable instrument of repression over the society. The continuity of the drastic repression characterizes the entire period of the existence of the Soviet Union, including even the times of Khrushchev (Geler and Nekrics 2000/1986, pp. 554-557) and the presidency of Andropov (pp. 654-659).

Among the especially drastic moves one has to point out the requirement and the corresponding intervention consisting in legal changes that even the children be subject to death penalty, particularly for declining or omitting to denounce their parents for „counterrevolutionary activities“ (Geler and Nekrics 2000/1986/, p. 254). The continuity of terror, albeit with some softening, demonstrates a peculiar systemic trait which could be termed *partial path dependency*: the initial systemic solutions and a number of other adopted subsequently under way determine to considerable extent future systemic developments and impose constraints on future attempts to modify the system.

There are many indications of devastating repression imposed by extremist revolutionary regimes, but only some of them can be indicated here. One is massive emigration; by voting with their feet people unequivocally demonstrated their rejection of the newly introduced political regime. It is a well known fact which does not have to be proved here that the best part of the nation, the true country's elite was the principal stratum from which the émigrés had been recruited. Some countries, including Serbia, greatly benefited from this massive wave of emigration. That the inflows of emigration caused improvement of human capital and raised

noticeably the general culture of the populace can be clearly seen even today. It does not take any deeper analysis to conclude that a regime which is massively and systematically abandoned by best people does not meet elementary civilizational standards.

Among the most telling indicators of the oppressive nature of a political regime is the number of jailed people. An appropriate illustration could be the number of jailed in 1977, a year for which systematic data had been prepared. It should be noted that this is a year in the advanced and visibly softened stage of the Soviet development, a stage considerably relaxed compared with Stalin's times as well as times of the harsh rule instituted by Lenin. Yet, on January 1 in jails and concentration camps their time served no less than 1.6 million people and on „building sites of the national economy“ there time served close to half a million citizens. There are alternative estimates, believed to be more realistic, according to which at the end of 1970's some 3 million people were jailed to which another 2 million so called *malosrochniks* (the low penalty convicts) (Geler and Nekrics 2000/1986/, p. 618) should be added. Taken together these two numbers make some 2% of the entire population, a verily high number for a workers' state and the regime which prides itself to be a *popular democracy*.

The appalling magnitude of this number is effectively illustrated by comparison with the USA, a country known by comparatively very high percentage of population serving the jail sentences. It turns out that the percentage of jailed population in the USA is about 4.5 times less. Comparison with other countries would lead one to even more shocking conclusions. The truly distressing figure is obtained by looking at the corresponding figures during Stalin's times when the jailed population of 15 million in relation to the total population of 180 million shot up to an unbelievable 8.3%.

A very limited number of truly embarrassing features of the system will be for lack of space mentioned just in passing. At the beginning of 1960's Voroshilov and Khrushchev announced that there had been no political prisoners in the USSR; this was „achieved“by the simple trick of pronouncing the politically persecuted for simple criminals. The trick was further facilitated by putting the politically accused into madhouses, claiming that they suffer from schizophrenia. The following detail informs about so called *csistkas*, the inexorable bloody settlement among the top party leadership, mainly arranged by Stalin to eliminate his political opponents and possible competitors: out of 166 delegates at the XVII Party

congress in 1934 (“the congress of victors“) at the next XVIII congress turned up only 59 since about 2/3 of those delegates were arrested as the „enemies of the people“and mostly executed.

Punishment of independent, critically oriented intellectuals became almost a daily routine with the arrests of writers and their frequent humiliating declarations of repentance had for a long time been the ordinary and calmly accepted order of the day. A curious statistic calculated for 1962 throws an unusually bright light on the nature of the system: the average age of Soviet writers who died in the country was 45 years and of those who died abroad 72! It might be quite appropriate to conclude this section by citing J. Read (1967/1919/, p. 22) who aptly informed about the exclamation of one of his Russian collocutor having said that revolution had been a disease calling for intervention of foreign powers just as a parent is called to intervene when his child becomes ill.

At long last, it is indeed impossible to resist the temptation of citing a frightening detail given in the unforgettable work of N. Mandel'stam (1984/1983/, pp. 33-34). She describes the carts full of naked corpses, carelessly covered with reed blankets, the bodies having been taken from the local outpost of the ill-famed Cseka (here given in noncapitalized form since it became such an usual part of daily life that it became to be referred to as a person). Another detail presented in the same volume is about the rivulets of blood flowing from the horribly disreputable jail Lubjanka, a sad product of the evil intention to intimidate local people.

There is a rather firm stand in the theory of literature and the practice of literary critique that the literary works carry exclusively esthetic function and should not be burdened nor be preoccupied with generating knowledge and increasing the amount of properly understood facts about the surrounding world. In view of what Mandel'stam, Solzhenitsyn and many others have contributed to knowledge about a dictatorial, terror pursuing system, there are ample reasons to reject such a *l'art pour l'art* views of literature. People like two just mentioned authors have contributed to understanding of the so called socialist systems more than dozens of learned monographs.

2.2 Intellectual Frame of the Revolution and Its Acquisitions

Revolutions are by definition huge leaps into the unknown, the shifting of the extant system into a location far removed from its pre-revolutionary location. The first thing to note is that any proper blueprint for the

revolution cannot simply be worked out. The position into which the system is to be moved is far away from the actual positions through which it has been passing in the past. It is evident that more or less reliable information can only be collected and be available about actual positions in which the system functioned because relevant evidence comes from real constellations and never from the imagined or planned ones. The further the position into which the revolution is to shift the system the less knowledge about it is available and the more likely the error of the social action moving the system at such prohibitive distance. This insight is the principal ingredient and in fact the very basis of the philosophy of so called *small steps* proposed by Popper (1993/1971/, pp. 24, the entire chapter IX, particularly pp. 209-211) in the most convincing manner. Small steps make it possible to acquire the precious knowledge along with the transformation of the system. Knowledge acquired during the performance of one step becomes the needed ingredient for planning of the next step; due to such accumulation of information and experience that next step can be made much more reliably; it is simply better taken and predictably more rational. Step-by-step changes are not the style of revolutionary turnarounds but rather the form of cautious reform transformations. Due to reform style gradual improvements, the processes of institutional advancement become – simultaneously and most luckily – the processes of learning. The reform can be hoped to be successful only if this learning ingredient is reliably supplied.

October revolution was anything but a conscious, planned and carefully organized learning experience. More than that, it took place in an environment in which the general level of knowledge in the field of political philosophy, sociology and economics had been exceedingly inadequate. The revolutionaries of the time did not even possess the knowledge readily available in other, scientifically advanced countries. As an example one can cite the fact that the division of powers as an indispensable characteristic of the political system had not been once mentioned by the architects of the newly built system of dictatorship of proletariat. True, there has certainly not been a single trace of motivation for building such structural feature into the system, but had the revolutionaries had at least some knowledge about it, they would have proceeded more cautiously in shaping some segments of the political system. At any rate, they at least would not have boasted the consolidation of powers into a single monolithic whole. To the initiated the very concept of placing all powers at *one* institutional location is simply preposterous. The shocking insight is obtained when one compares the engineering of the system by American founding fathers with the architecture of Russian revolutionaries headed by Lenin. The latter group

appears incredibly far behind in relation to the former and this one lived and worked about one and half century after the former.

The ignorance is predictably followed by sudden and frequently radical change of the concepts on which the development of institutions is based. As demonstrated to impressive detail in the path-breaking study of S. Cohen (1980/1973/, pp. 127-160, 235-258), Bucharin, the leading theoretician of the Bolshevik Party and the intellectual landmark of the revolution changed his position radically and completely by turning from an extreme left to the moderate right – in the constellation of the prevailing revolutionary forces that „moderate“ was perceived and interpreted as the extreme right – changing profoundly the entire thinking about the possible and desirable directions of developing the institutional system. Lenin himself was very much in agreement with Bucharin and endorsed and supported his views on how to steer and regulate institutional and economic development. It is not hard to imagine what shocks such turnabouts in the basic concepts of the almighty leadership must have produced in the economy of the country and the society as a whole.

In analyzing the intellectual underpinnings of the revolution one cannot bypass Lenin's famous *April Theses* which not only to the contemporary reader but also to the knowledgeable thinker of that time must look as an astonishing collection of absurdities. Utopian part of this document is unbelievable: abolition of the military and the police, getting rid of all bureaucracy, equalization of wages and salaries across the board, abolition of the division of labor in the sense that any cook could take the post of a minister in the government... (Geler and Nekrics 2000/1986, pp. 24, 41). Bucharin's *ABC of Communism* did not fare any better; rather than wasting the space in discussing it, Cohen's (1980/1973/, p. 91) assessment will be adduced; according to him this book is not about Soviet realities but the document demonstrating Bolshevik naivety. How could a reasonable, sustainable policy have been derived from such arbitrary, empirically not verified and demonstrably confused and contradictory ideas? Contradictions are definitive and irrevocable proofs of the errors in thinking and scientific unsustainability of the corresponding propositions. Two such contradictions – dictatorship interpreted as some form of democracy and strengthening the state as a way of its eventual withering away – can be persuasively cited.

A serious weakness in thinking of the revolutionary leaders and their official theoreticians was the divination of ideology. A significant number of Marxist precepts were accepted as sacrosanct and frequently made it impossible to work out the practical and reasonably efficient solutions even

when the answers to such practical queries, from a cognitive point of view, had been easy to come by. Letting peasants to continue working on (at least part of) their land was such a way out of many hardships which on many occasions was blocked by untouchable ideological creed. For the same reason small merchants were pushed out of business with massive famine and grave social tensions as an inevitable consequence. Ideology on the other hand forced irrational and destructive solutions with heavy costs for the society at large and evident losses even for the Bolshevik commanding directorium, which so frequently happened, indeed unbelievably, when backing off had been the right way of resolving the complicated social issues.

Characteristic example of damages caused by ideological musts is the early, immediately following the Revolution, attempt to nationalize industrial capacities and to hand them over to workers and, at some time, to the trade unions. Elementary questions regarding the relevant capabilities of the said groups/institutions were not asked. In particular, no attempt had been made to ascertain the eventual availability of the specialized experts able to manage notoriously complicated business affairs. In fact, this should not come as a surprise in view of the Lenin's initial idea of abolishing the division of labor and creating a social situation in which everybody would be able to perform anyone's job, including a cook acting as a minister in the government (Lenin's own illustration).

Very interesting and highly illustrative is the confusion about the possibility and, additionally, desirability of the socialist revolution in a backward country which found itself only in the initial stage of the capitalist development. These quandaries are extensively described by Deutscher (1977/1967/, pp. 59-95) and, in particular, by Cohen (1980/1973/, pp. 112-207). The first earth-shaking question was about the sequencing of the revolution(s). The Marxist scriptures have it that the revolutions have to follow their fate-predetermined historical course as elaborated and „scientifically proven“in historical materialism. Serious controversies developed on the left where its, conditionally speaking, right wing seriously argued that Russia should pass through the capitalist revolution first, which would be the epochal mission of the bourgeois parties. Other thought that this roundabout way would take too much time and that the progressive forces cannot wait so long. The other bitterly argued issue was about the scope of the revolution. A strongly voiced stand, associated, among others, with the name of Trotsky, maintained that revolution by the nature of the change could and should only be carried out at the planetary level, in the form of the world revolution. Some of the proponents of this view also

believed and claimed that it would be enough for the revolution to burst in Russia and that, by this very fact, it would spread out to the entire globe. Others were more skeptical regarding this expansive potential of the revolution and split into two streams: the ones who believed that revolution would nevertheless be possible in one isolated country, and the others who declined such a possibility and thought that time for Russian revolution had not been ripe yet. One wonders how anything was possible and actually done with such a maze of interwoven, partly consistent but predominantly conflicting opinions based on so poorly argued theoretical foundations.

The real monument of intellectual inadequacy of the theoretical underpinnings and analytical layout of the revolutionary program(s) is the unlimited belief in the workability of the highly centralized and administratively run systems. None of the necessary conditions for achieving reasonable efficiency of any economic system had not been thought about, not to speak about their assuring in the blueprints of the future any workable institutional framework, better to say *the framework to be erected*. Such conditions are today so clear and theoretically so well worked out that they make up common knowledge and public domain of scientific information. But a fairly clear and reliable understanding of these verified truths was available in those days, too, and one wonders how any group or political party could dare to turn around the entire society without a massive quantity of knowledge, including the elements necessary for the very existence of those future systemic creations. More importantly, the philosophical understanding about the limits of knowledge as such was completely absent.

Over centralized systems, in which so much faith was invested, have the fatal flaw of limited decision making capacity. The reason for this deficiency lies in the fact that the entire decision making process is monopolized by the top party and state leadership. When the authority to take decisions is placed at just a few points, in the hands of those located at the commanding top of the party and the state, very few decisions can be taken per unit of time and with such a small number of decisions to be reached resources cannot be allocated properly. Wasteful gigantism, dominance of the mammoth organizations and bureaucratization of the economy as well as other areas is the inevitable result. Moreover, such systems do not possess the necessary mechanisms for generating information, they lack among other proper market prices to indicate the objective needs. Just to remind, economic decisions are always based on information and are good only to the extent determined by the availability and the quality of information. Furthermore, the architects of the would-be

Soviet system were blind to the all-important motivation structure: people will be taking the right decisions only if they are accordingly motivated and placed in an efficiency-friendly environment. None of these essential prerequisites for the efficient functioning of the system was assured. Such prerequisites had not been even thought about.

To all of this one should add the false general economic-cum-social theory which figured in the deep foundations of the system to be erected. It is now more or less generally accepted that the Marxist theory is wrong, his one-factor labor theory of value is untenable, all grand predictions derived from it (growing immiseration of the working class, the long run fall of the rate of profit, the steady and steadily growing concentration of capital...) proved plainly wrong. One can wonder with Slaviša Tasić (2016 *passim*, especially pp. 79-86) – a unique and unforgettable author whose works transform the reader in the way of changing his intellectual stance for life – how was it at all possible that one false theory had captured the minds of the humanity and for a long series of decades, for centuries in fact, inspired leaderships and masses for movements leaving deep imprints for long sweeps of historical time. This is not the place for elaborating deficiencies of Marxism: it is sufficient to state that a system purporting to lean ultimately onto such a theory could quite justifiably be predicted to break down. And it did.

Quite a few faults, and a significant number of those not enumerated here, can be summed up by a single but far-going proposition: the system is not implementable. The conspicuous proof of this fact is Lenin's launching of the New Economic Policy, the famous NEP, which is really a tangible proof of the utopian character of the system as it was conceptualized by Buharin and decidedly endorsed by Lenin. The amazing thing about the NEP is its spectacular success. The success is partly due to the fact that the Bolshevik revolution and subsequent institutional engineering, together with the ensued civil war, have so completely ruined the economy that the starting base had been unprecedentedly low. Any partly normal arrangement, on that account alone, had to be vastly superior compared to the disastrous initial state, the ultimate product of Bolshevik meddling with the system. With the benefit of hindsight, it is possible to argue that the NEP had to happen because the society could not have survived without at least temporary compromise with the dictates of life itself, with its common sense imperatives. Since every nonsensical institutional creation can survive for some time, existing on the results of the preceding, given the circumstances *normal* system, the temporary functioning of the pre-NEP utopian creation cannot be taken as a proof of

its workability, not to speak about sustainability. Its replacement of the Bolshevik hodge-podge by the market bent NEP is a proof of the faulty approach to building the new society, the evidence of the error of the unthinkable proportions, with unthinkably large costs, above all in terms of human lives and additionally in terms of immeasurable human sufferings (cf. Geler and Nekrics 2000/1986/, p. 102 ff.).

A fundamental error, committed at the level much higher than the one concerning the economy as a whole, is the ignoring the influence and the significance of the political power as a cause and a base of the stratification of society. The holders of wealth can be completely expropriated if the political will and power are extraordinarily high, but the politically conditioned hierarchy of managerial posts throughout the society proved to be incomparably more resistant to any form of expropriation. It actually came out as even more influential and more potent factor of social inequality, indeed an impacting force which led to the stratification characterized by a number of writers as *class structure*. M. Đilas is certainly one of the first and best known among such writers, but it is less known that Buharin anticipated that line of thinking much before Đilas stepped up forcefully with his famous book. Alas, that was too late; it came after Buharin's stage of ardent left extremism, the period in which he significantly contributed to the cruel and blood-thirsty system in which millions succumbed tragically and which is about to take mercilessly life of Buharin himself.

Speaking of Buharin, one should point out his evolution from the widely known passionate advocate of the communist terror to the in a way noble preacher of social harmony and civic peace. But even such a commendable orientation lacked proper theoretical underpinnings. E.g. he fought for a constructive policy stance towards so called *kulaks* and addressed the well known public appeal to them *get rich*. That is certainly a praiseworthy position, but the way he argued its general acceptance was theoretically faulty and scientifically unjustified. Namely, he reasoned in a strange way, akin to Lenin's theory of the strengthening of the state on the road of its withering away. He claimed that by getting richer and richer the *kulaks* will spontaneously grow into communist collectivist order because the society itself will become ever richer and the two trends of accumulating wealth will merge by themselves, without political interference directed towards such integration. Particularly strange and clearly wrong is his conviction that the collectivist sector of agriculture – it would probably consist of *kolkhozes* and *sovkhozes* – would be incomparably more efficient and decidedly competitive *vis-à-vis* the private sector, including *kulaks*. The

superior efficiency was, according to Buharin, to condition and to accelerate merging of the private into collectivist sector of agriculture. The private sector would thus by its own initiative join the collective farm sector in search for higher incomes and superior standard of living! Buharin announced quite seriously that ravaging inflation is a good and beneficial process because that is a way of annihilating money and Marxist scriptures have it that the future communist society will be one without money (Geler and Nekrics 2000/1986/, pp. 197-198). Of course, in the present retrospective such reasoning looks simply nonsensical and silly, but it should be noted that sufficient knowledge was available even at that time to avoid such oddities. This excursion into aberrations of the Bolshevik development philosophy is done with the purpose of bringing out a glaring misbalance between the magnitude of change they undertook to produce and the meager intellectual resources, poor and drastically lacking knowledge available for erecting a novel and wholly original institutional architecture.

A number of other oddities, which are likely perceived as insults to mind and onslaughts on common sense deserve mentioning. The first one deserves an entire book, which it undoubtedly earned, and relates to the impervious command of the guardians of ideological bonfire and the supreme bodies of the party apparatus *over* scientific research and accompanying publishing of its results. The propositions exhibiting some coherence with the ideological precepts were elevated to the unquestionable „truths“and the results of the scientific production had to fit into the therefrom derived, both explicitly and implicitly, obligatory constraints. A part of any profession, guided by base selfish interests and the fear from persecution, predictably sided with the party apparatus and worked hard on imposing the party directives upon the scientific activities. Predictably again, the hardest damaged had been the social sciences. But even the natural sciences had their bitter part of imposed conformism. Notable is the case of Lisenko (Geler and Nekrics 2000/1986/, pp. 255-271) who managed to subdue completely biological sciences to the commanding organs of the party. That went so far that in some circles it was seriously asserted that, when it comes to decide what is scientifically true, party stance is pronounced and accepted as superior to the science of botany.

Arrests and persecutions of the scientists became the order of the day and the victims were to be found even among the workers of such seemingly neutral and ideologically uncommittable sciences as microbiology, agronomy, physiology and even aeronautical and space engineering (Geler and Nekrics 2000/1986/, pp. 260-261). Understandably,

the Party dictates and corresponding persecution by secret service and the police were much more practiced in the field of arts, particularly poetry and literature in general. Again, even in those arts for which it is close to impossible to imagine any ideological connection there have been attacks and persecutions. The particularly characteristic among such is the famous Party attack on Shostakovich (p. 262) and captures attention as a case in point.

Other oddities, demonstrating logical deficiencies and deep irrationalities can readily be laid out. In the years closely following the Revolution a general plan on restructuring families and changing the roles of various family members was promulgated. Far fetched changes were foreseen in the relations between sexes and in the area of intimate life and love. An element of the plan was a form of *nationalization of children* with the explanation that the children, the future of any society, are above all general social concern and worry (p. 51).

Soviet political landscape is strewn with erroneous predictions. N. Milošević (2000, pp. 770-771) has discussed some of these. On several occasions Lenin has predicted the world revolution in very near, almost immediate future. In other turns he predicted revolution not in the planetary proportions but in the most advanced countries of Western Europe. Stalin predicted that communist parties would take hold of political power in the close future (Geler and Nekrics 2000/1986/, p. 472). Unaware of the Stalin's prophecy, Molotov gave a different one and soon thereafter had to launch public correction. Khrushchev promised the completion of communism in a time span of 20 years and his successors had to make cautious corrections. In 1929 quick achievement of socialism was solemnly announced (p. 250). Among the spiciest declarations was Stalin's announcement in 1929 about the completion of the building of socialism (p. 250). Brezhnev himself did not fail to join the crew of predictors and prophesized that at the then reached stage of the „mature socialism“new spectacular leaps would be made. He thereby announced himself categorically against playing with sciences and said that with the Party readily armed with teachings of Marxism-Leninism no scientific revolution is needed whatsoever and that the experience of political organizing of the masses successfully accumulated by the Party would suffice (p. 601).

2.3 *Law, Morals and Dignity*

The basic truth about the authoritarian and in many dimensions undoubtedly totalitarian collectivist system, pioneered in Soviet Union and subsequently exported elsewhere, is the absence of anything resembling the rule of law.

That appears to be the fundamental determinant of the character of that system, the driving factor of its evolution and the principal cause of its spectacular historical demise. It must be stressed that the importance of the laws equally obliging all members of society was perfectly understood as far back in time as ancient cultures; the marvelous understanding of the importance of laws in well institutionalized societies is uniquely summarized by the famous saying *Omnes legum servi sumus ut liberi esse possimus*.

The striking absence of the rule of law means the absence of the binding rules which are equally applied to anyone and, by implication; such lacuna implies the general and unlimited jeopardizing of human rights and liberties. It also means the rule of the all-mighty government which can do all it might want to any citizen and any organization. Among other things it means that Nadežda Mandel'stam (cf. 1984/1983/, pp. 201-267) had to learn by heart the poems of her husband Osip lest they don't get definitively lost by police breaking into their home in the middle of the night and seizing all papers they could lay their hands on. It also means that Buharin, once he knew about his death sentence, felt the need to ask his wife to learn by heart his last letter addressed to her, otherwise the secret service might drop in and confiscate it, with its contents lost forever (Cohen (1980/1973/, p. 350).

The elimination of the law can take two forms. One, arbitrary and nonsensical regulations can be prescribed on the basis of which every innocent individual could be arrested, accused, tortured and ultimately even executed. Second, and by far more devastating, is that the existing laws may no purpose be written ambivalently and/or fail to be applied or be applied selectively and in haphazard ways. In such a situation nobody is safe and certain. The authorities without any constraints and not controlled by any body or institution can do anything to any institution or individual. Ethical behavior becomes in such a situation very expensive. Mandel'stam describes the situations in which an arbitrarily arrested person is asked to give the names of 5 of her acquaintances as persons who work against the government and would be accused as the „enemies of the people“. In case the person declined to recite such names the sentencing to 5 or more years in concentration camp would most likely follow. It is not difficult to imagine how many innocent people would be arrested and jailed in a system in which the secret service had the number of arrests determined as their official work norm and in which arrests had been planned as a matter of projections for the future (Geler and Nekrics 2000/1986/, p. 476).

Moral was highly relativized by the Soviet establishment. In his first, extremist and ultra radical stage, Buharin took a derogatory stand towards morals and expressed himself against anything resembling the categorical imperative. Moral for him was a matter of political expedience when he said that the official history of the Party had been a scientific discipline and that the state action should be specifically directed towards building the new Soviet man, quickly christened as *Homo Sovieticus*. The party directives replaced for him all ethical considerations.

The absence of the appropriate legal order and the lack of protection of individual rights and liberties has predictably degraded personal and public morals and brought all kinds of ethical perversities. The case of children denouncing their parents to the police came to be hailed as an exemplary execution of patriotic duties. The celebrated writer M. Gorky praised enormously the famed Pavel Morozov who did just that to his father (Mandel'stam I 1984/1983/, p. 367). This is just one of more than problematic Gorky's public statements which clearly speak very unfavorably not only about that officially dignified writer but, more importantly, about the society at large and the public „moral“ which prevailed in a society sadly vanquished by a dictatorial force.

The cruelty of the regime is best evidenced by the number of jailed and shot people, with highly illustrative numbers presented in the previous section. Let it be added that analyzing the number of victims is the most frequent and most typical component of analytical examinations of this (type of) society. A random selection has it that that various analysts have come up with various estimates for various periods and that typical figures relating to the newly arrested range between 3 and 7 million. There is information about 1.7 million shot and another 2 million who died in the jails on the yearly basis. On the ill-famed Kolima peninsula some 3 million people perished. The maximum number of jailed in the tsarist Russia was 183,949 and only in the Serpantinki camp more inmates were shot than in 100 years during the tsarist regime! All these figures referring just to certain locations and selected limited periods, taken from Geler and Nekritcs (pp. 274-276) could appropriately be supplemented with estimates of total number of victims of „socialist camp empire“ given and analyzed by Solzhenitsyn. To begin with, he cites the estimates of the inmates amounting to 20-30 million, but believes such figures to be exaggerated and gives lower estimates of his own of 12-15 million people (p. 276). On this occasion the figures are adduced as indicators of undone morals: a political establishment which destroyed so many lives, based on various estimates some 10-15 times more than in notoriously authoritarian tsarist Russia, had

quite clearly been a criminal regime and will remain as a permanent testimony of the importance of seriously taken and conscientiously applied legal order to a society and of the not only danger but inevitability of a lawless society falling into deepest abysses of inhumanity.

Horrifying details of judicial persecutions of the most distinguished members of the top Party cadres and the highest functionaries of the ruling elite will never be forgotten. Several writers speak about death sentences with executions even before the accusations had been raised. Mandel'stam (1984/1983/p. 44) reports about betrayals of the fellow-fighters as a social phenomenon. Clearly, much of this was done under unbearable tortures. The relevant literature has it that the Cseka had torture chambers to which even the highest government functionaries had not been admitted. The typical rhythm of the secret service investigations was the refusal of any confessions followed by dragging investigations with deliberately increasing the application of extortion, until the accused, as most of us would, gave in and admitted what he had *not* done. S. Cohen (1980/1973/, p. 346-348) reports to some detail the procedure through which the admissions had been extorted from Zinovjev and Kamenjev. The investigative procedure was long and, of course, painful and took several weeks. There have, quite naturally, been strong and highly ethical personalities who declined the admission even under the cruelest tortures, but then secret service invented the device of threatening their families. Those were blackmails that family members would be put under similar investigations with similar corporal treatments naturally understood. It is positively established that Buharin did not admit anything during the course of investigation until they took recourse to the threat that his wife and son would be arrested (Cohen 1980/1973/, p. 355). Despite the fact that the whole story looks incredible, it happened nevertheless.

Most people accepted terror and adjusted to it as an everyday form of life. That clearly implied a devastating destruction of public morals which may take decades and decades to be restored. The abysmal consequences of the destruction of morals cannot be elaborated here, but it will suffice to say that all crucial spheres of social life are inevitably affected by it and depressing deceleration of future economic development might as well be one of overwhelmingly costly consequences of this ethical collapse. When the destruction of morals gets socially internalized and generally endorsed, it becomes less visible. Degree of debacle is properly seen through the acts of extraordinary individuals who are real markers of human conscience. Desperate acts of ethically sensitive personalities are well known and are extensively elaborated in the literature (one meets here

again its extraordinary *cognitive contribution*). Two leading poets, Yessenin and Mayakovski committed suicide, another great poet, Pasternak, died under the psychological pressure of the authorities bent on changing ways in which Soviet grim reality was reflected in his work; the outrageous official reaction to the news that he was awarded the Nobel prize proved also an impulse accelerating his death. Stalin's spouse Nadezhda Alilujeva was among those who took personally the general moral downfall and in a moment of hopelessness and revolt committed suicide (Cohen 1980/1973/, p. 344). Equally shocking are, again extorted, public repentances on the part of many distinguished individuals accused for the purpose of removal from the political competitive struggle and not for any illegal acts. Geler and Nekritcs (2000/1986/, pp. 579-580) report on cases of leading intellectuals whose repentances did not save them from further persecution. Those humiliating repentances are probably even more tragic ruin of morals than the admission of uncommitted crimes. They are the ultimate defeat of humanity both on the part of extortionists and on the part of the entire society which was forced into such degrading procedures of the uncommitted crimes and undeserved punishments. An aspect of the (destruction) of morals of any society is the above indicated collective behavior of the large masses of people. The defective legal framework produces crime and violence not only through commission of crimes by the power holding regime but also by its omission to protect rights and freedoms. Mandel'stam (1984/1983/, p. 132) speaks about decentralized violence of large collections of people lapsed into some sort of pre-Hobsian uncivilized state and eager to acquire the favor of authorities by siding against the innocent. The most shocking insight is the one about behavior of the writers' associations which collectively and against the rules of decent behavior used to express their support to the regime in thundering voices and failed to support and assist their threatened fellow writers. Such an unethical endorsement of the institutionalized violence came to be frequently practiced despite the fact that the victims, ordinarily belonging to the avant-garde of the best artists, suffered repression because of their unorthodox views or simply because they declined to write following the dictates of the party. Ignoring those frequently talked about *party line* has always been a risky business in the first socialist country and, as the leadership claimed, the first communist country in the making.

Lawless application of brute force towards the Red Army officers deserves special attention. They were literally decimated. The ablest, the most learned and the most experienced were put to death. Among them the best known is marshal Tuhacsevski, the celebrated general from the Civil War and one of the creators of the Red Army. Within a period of about one

year (May 1937 - September 1938) the majority of army officers were put under investigation and subsequently persecuted: the victims of brutality encompassed half of all regimental commandants, almost all commandants of brigade and literally all commandants of higher ranking (Geler and Nekrics 2000/1986/, pp. 274-275). The military analysts have ascribed to this decimation of army cadre the catastrophic results at the beginning of the Second World War, the defeat of the Soviets in the initial stage of the famous Barbarossa plan, including destruction of the Soviet aviation, before the planes managed even to take off, and millions of killed and captured soldiers.

Particular mention must also be made about bloody traces of the forceful collectivization of agriculture and the scrupulous „nationalization“(it was in fact *confiscation*) of land and seizing away of other valuables. Millions succumbed tragically. There is an estimate reported by Geler and Nekrics (p. 211) that a million of Don Kozaks alone have thereby lost their lives. The big point to remember is that collectivization and subsequent execution of those who didn't comply is a devastating blow to the very pillars of civilization, to institutional supports that had been evolutionarily developed over centuries. Small wonder that traces of that systemic destruction are lasting and are vividly seen today. Moreover they are almost certain to constrain future development, not only of the economy but more generally the society at large and, indeed, for a long time to come. To those who spearheaded the violent actions of the brutal governmental machinery the simple truth could not be clarified, even less made acceptable, that destruction of morals is doing away with the future of a society.

The revolutionary turnaround could be conceived as a mortal blow to freedom which is widely accepted as one of the fundamental social values. It is probably second only to life itself. To see this in all its glaring nakedness, it is convenient to begin with the *then valid* official conception of freedom. The bizarre and clearly illogical conception of officially inaugurated conception of freedom is immediately seen from the seriously endorsed proclamation that freedom can be awarded and guaranteed only to those whose interests and actions coincide with the steering commitments of the society, as traced by the Party, and that individuals have full freedom to agree with the Party (Geler and Nekrics 2000/1976, p. 615). The most natural insistence on developing and strengthening the laws as the pillars and the unique protection of freedom, emphasized by the increasing number of dissidents, was frowned upon by the authorities and systematically prosecuted (p. 615 ff.).. Can anything else be seen as, among other things, a

glaring indication of the abysmally low level of legal and political culture than such a denigrating stance towards the law?

Characteristic is and highly indicative another official stance; freedom is not just a matter concerning the individual; it is paramountly the matter of the society because many important social matters and parts of the associated development potential *of the society* depend on the way the citizens use their free time (Geler and Nekrics, p. 610). The institution of internal passports made it impossible to travel freely even within the country (when this author, some 20 years ago, pointed out this piquant detail to a very dear friend, a hard and tough Sovietofil, just in order to tease him, his reply was *Why should every fool be permitted to travel within the country the way he pleases?!.*) It looks as if the factors constraining liberties are not located only within the governing circles of the authoritarian government, but have much to do with the regrettably low political and general culture of the populace. A sentence of the late Ljubo Sirc, contained in his memoirs, comes to the memory: on the undignified behavior of a group of Soviet citizens, arrested by the Germans and transported on a ship, he approximately said *What further to expect from that human cattle?!.*

The citizens' freedom was severely circumscribed in a number of other harsh ways. The workers were not permitted to leave their factories in search for other jobs and that prohibition was lifted only in April 1956 (p. 522). In the spring of 1935 Stalin suspended the usual and universally respected privileges of political prisoners who up to that time had much more favorable treatment comparable to the one during the czarist times (Deutscher 1977/1967/, pp. 311-314). As it turned out, their treatment was harsher than the treatment of ordinary criminals; Mandel'stam (1964/1963/, p. 224) gives an interesting and highly indicative remark that the politically accused had ample reason to envy the criminals when it comes down to the way they were treated in jails and camps. There was a law against the loafing, but more marked were its abuses: the independent and freedom fighting intellectuals (among them J. Brodsky) had been its frequent victims.

A striking way of limiting and even abolishing liberties was universally applied censorship, introduced by Lenin himself and openly and energetically advocated by him (Geler and Nekrics 2000/1986/, 561). The censorship was so seriously conceived and so systematically exercised that it became universal and in many respects determining component of the system. It shifted down to numerous and inextinguishably obedient editorial

boards, which led Manadel'stam (1984/1983/, p. 158) to the assessment that these boards were stricter and in a way more bloodthirsty than the official organs of censorship themselves.

The prohibitions in one form or the other permeated the entire culture. The attack on Shostakovich vividly demonstrates how broad and all-encompassing the pressure of the authorities has been. But repression was even more severe in other, much broader segments of society. One should recall the horrors of collectivization and millions of lives wasted in the process. In fact the coercion and the terror have been the fundamental driving force of all discernible changes in the system; they made its defining characteristic and its permanent *modus operandi*. The violence took several directions, approached various segments of the society in different ways and continued taking variegated shapes as if it developed in parallel with other parts of the society. It has been gradually declining in intensity, mostly because powerful propaganda was crowned with success making it less necessary to resort to earlier practiced cruelties. The violence was first of all intensely exercised in the relations between the ruling top and the broad base of the society, and then it became a regular feature within the social elite, with power holders terrorizing the rest of the elite. Mostly terrorized was cultural elite and its part engaged in various social intellectual interactions. Somewhat strangely but after all not quite unexpectedly, there was decentralized spontaneously generated violence of the Hobbesian type within the broad segments of the society at large. However, most intriguing of all was the violence within the ruling top of the Party and the state – the ill-famed *csistkas*.

N. Milošević (2000/1986/, *passim*) explains violence as a result of the pathological features of the top leaders of the party and the government, above all Stalin. That doesn't seem convincing. The violence is the systemic trait of the socialist regime and is not primarily rooted in the commanding personalities. Top people have been coming and going, but the coercion and violence continued to hold deep imprints in the society (cf. Geler and Nekrics 2000/1986/, p. 574). Rather than referring to the psychology of the rulers, the repressive traits as systemic of an authoritarian society can be explained by simple situational logic. There has not been rule of law, the society lacked the skeleton of legal arrangements designed to provide protection of rights and freedoms for all members of society, and in equal form and equally efficient at that. In such a society without the rule of law *all* are unprotected and potentially threatened. To paraphrase, no one is legally protected, no one safe.

This situation has two far-reaching consequences. Firstly, the powerful top people can use their superior political clout to remove, frequently by putting to death, the likely competitors or disliked collaborators; this amounts to using political might to strengthen and to expand it further. The second implication, equally important and perhaps with more damaging consequences, is the fear of the top leaders, either from organizations or from their likely competitors, including the closest collaborators, particularly the ablest and the most successful, for their own survival. Being without true and real legal protection, even the mightiest leader is imperiled and has good reasons to fear for his life in case political turbulence brings somebody else to the top of the ruled entity. The way of doing away with that fear is to keep exterminating the potential winners of a possible future political struggle.

Stalin had good reasons for csitkas as he had been surrounded with people of high intellectual capacity, evidently superior to him (Trotsky, Buharin...). The process of exterminating tends to take a cumulative nature: the more surrounding collaborators are done away with; it is natural for the remaining rest to nourish deep resentment towards the supreme boss and, on his part, to grow more and more distrustful. This then generates „justified“ reasons for further removals. Without credible rule of law everyone is imperiled and each is a potential executor. Despite all critiques and in spite of all dangers emanating from the ruling despot, Hobbes has understood the hazards of legally unregulated society much before others and perhaps better than others. The Soviet Union served in a way as a convenient ground for testing the Hobbesian theories.

Another systemic characteristic, closely related to the institutionalized coercion and the rule of terror is the personality cult. As just indicated, this trait is not a feature of the personality but on of the intrinsic lineaments of the system. The system needs the cult of personality as its functional support and as a necessary element for generating the *lines of force* of coercion which flow from the top and spread out widely following the hierarchical structure of a command system. If the system is based on commands and not on voluntary cooperation and freely transacted business, than the all-defining coercion has to have an initial point from which it could take its course.

The above mentioned rigid relationships of command and obedience make it possible for the personality cult to arise and further to grow in the most natural way. The top leader has the command over the cadres and controls the formation of the electoral body that occasionally has

to give a formal blessing to his rule. True, elections are not always free of hazards and lots of political manipulation is from time to time necessary to secure the „right“ outcome. However, all that is far from genuine democratic elections. The latter themselves could be rigged but evidently are in essence different from elections by self-made bodies in an authoritarian system. By manipulating the selection of cadres and electoral procedures within narrow constituted bodies, with broader social bases having no impact, the leader systematically increases his political clout. The collaborating encourage praises him and elevates to the mystic heights, with clear understanding that such blandishments bring to the flatterers considerable benefits.

The creation of the personality cult can be very conveniently illustrated by looking into the manner of creation of the cult of Brezhnev. A splendid military career was ascribed to him and the rank of the marshal of Soviet Union awarded. Sixty high-grade medals were counted on his festive uniform, whereas only 46 were awarded to the celebrated Marshall Zhukov, seen in Soviet Union as the greatest commander-in-chief of the Second World War. A decisive role in the victory over Hitler was also ascribed to him. He was decorated with the Karl Marx medal for distinguished contributions to the Marxist-Leninist theory. Lenin Prize for preservation of peace was also one of his rewards. When the Party membership cards were replaced in 1973, the card No. 1 was for Lenin and the card No. 2 was reserved for Brezhnev. In 1979 „at the request of the workers“ Brezhnev was awarded the Lenin Prize for literature and the Secretary General was proclaimed the best writer of the country. There had been many requests from all over addressed to him that he, as a magician of the Russian written word, should write more and more, he promised that he would if time and circumstances allow such additional effort (Geler and Nekrics 2000/1986/, pp. 611-614).

2.4 The Mirror of History: Results, Consequences and Damages

The general social rationality of every institutional order is judged by its performance, by the results it produced. At least three important aspect of this matter have to be looked into. One is the performance achieved during the time of functioning of that order. The relevant aspects here are first of all the achieved rate of growth and the accumulated potential for future development performances. The second is the distribution of income and wealth and the traces economic development left on the broadest social structure such as stratification of society on bases other than wealth and the degree to which members were equalized in chances and possibilities to fulfill their life plans and develop the potentialities of their inborn talents. The third aspects are the costs – material costs and possible costs in terms of

human sufferings, lost possibilities of realizing their life plans and the costs in terms of human lives. No matter how impressive might look the achievements and how significant they actually are one can always think of costs which are so high as to put a thick shadow and even make unjustifiable the obtained results.

A very important but regrettably mostly neglected issue is the legacy that a given period of development, in this case socialist development leaves for the future. The macroeconomic development indicators, above all the rate of growth of the GDP, possess and display an important property which may be called *time interdependence*. Economy may achieve very high rates of growth at the cost of exhausting unique and unrepeatable growth possibilities or at the costs of selecting easy structural development strategies which predetermine future development deceleration to be faced by subsequent policy formulating bodies or, because of long run implications, even by subsequent generations. Easy dynamic development options are frequently chosen at the cost of accumulating numerous bottlenecks which have to be filled out later and which force a marked development deceleration upon the future (Madžar 1990, pp. 154-162). No matter how high the rates of growth might happen to be realized over a given time interval, if the results of such development leave the legacy of unavoidable deceleration to the future, *that* development cannot be judged as successful.

An overly important issue in this context is the sustainability. Socialist development adventure ended with a spectacular breakdown. Can any episode, no matter how high the growth rate and other indicators had been achieved during the observed (socialist) episode, be judged successful if it leaves perilous legacy to the future? Could any system terminating with a ruin be justified by what it delivered in the interim? The more so as the collapse of the underlying institutional framework leaves behind itself the ruin of the real economy as well and a period of lost growth with the lasting constraints on future development. The general, truly global deficiency of socialist systems is its original sin which might be termed *the curse of over centralization*. Exceeding centralization is an inevitable and predictable feature of the systems in which too much of the decision making authority is monopolized in the hands of a markedly narrow ruling elite. Over centralized systems are irreparably handicapped in their capacity for decision-making, motivation and their information generating dimension. Essential prerequisites for efficient allocation of resources are lacking. They are not fit for developing genuine market mechanisms even in areas in which their performance is drastically off the mark, the price structures they

manage to take hold of are irrational, the entrepreneurship initiatives are predictably stifled in such institutional environments (Tasić 2016, pp. 84-85).

The particularly damaging feature of these systems is their inability to reform and adjust to growing economy and to the changed external circumstances. Their defining internal structure is so set up as to guarantee the political, party instituted control over the economy and the society at large with the result that any significant move towards decentralization deranges the overall institutional equilibrium and jeopardizes the existence and survival of the system as a whole. It can survive only in its over centralized shape; decreased centralization would transform it into an entirely different system. The ideological commitments and the interests of the ruling elite are the insurmountable barriers on the way of eventual adjustment through decentralization. Hence the repeated and repeatedly unsuccessful attempts to develop and improve the system without modifying its basic ideologically fixed and truly defining fundamental features. This is the reason because of which one could with some justification speak about path dependency of institutional development, the mechanisms through which the extant institutional structures determine or at least constrain the dynamic succession of future institutional arrangements.

In its advanced stage, after a couple of decades of development under the administratively formed, exceedingly centralized structure the system arrives into a position of having to choose from among two evils: either decentralizing with disruption of macro social equilibrium and unpredictable, possibly catastrophic disruptions which no leadership is prepared to face, or continue operating under the old unreformable arrangements with continued stifling which could be termed death in installments. Either alternative leads to the death of the system, which actually happened. The systems unable to adjust and to carry out timely reforms are destined to break down in the form of devastating institutional explosion, as the particulars of their historical departure clearly demonstrate.

The best and indeed undeniable evidence of the inferiority of the collectivist system, imposed by brutal coercion, is the great institutional and policy shift to NEP, That was verily and *experimentum in vivo*. Many annalists have shown the spectacular recovery of the economy in all its segments of some importance. Ample information on the success of the NEP is, among other, provided by S. Cohen (1980/1973/, pp. 259-261): the

islands of social pluralism, especially the remnants of private ownership came out as soul saving components of social realities and glaring indication of superiority of institutional arrangements which had not been of any revolutionary making but had been developing in organic, evolutionary way over centuries. Because of this remarkable positive shift, Cohen (p. 261) calls the „NEP culture“one of the most brilliant parts of the European cultural history of the 20'th century.

The recovery was identified in the positive turnabout of all major macroeconomic aggregates. Particularly beneficial was the upward shift of the rate of growth of the GDP and, even more important as a part of it, revival of both the level and the growth dynamics of agricultural production. Letting people work and, at least within some limits, dispose off the results of their work proved to be the soundest recipe of economic policy. The importance of the contribution of agriculture to the great recovery was so much more significant as it was achieved under conditions of very unfavorable relations of agricultural prices to general price level in the rest of the economy, the notorious price scissors. Moreover, the fiscal burden on agriculture was close to unbearable. Yet, defining clear financial obligations for economic units in agricultural production and making it possible to place whatever little is left over on the market turned out to possess enormous motivational force. The production volume was moved to the levels probably not expected by anyone. It will remain somewhat of a mystery how it was possible, after this experimental proof of the shocking inferiority of collectivized agriculture to return at the beginning of the 1930's to an even harsher and more extreme pattern of collective organization and management. The *a priori* ideological commitments prevailed over all rational considerations, with low economic understanding and strong partial interests as the very likely driving factors.

Sticking to collectivization of agriculture and forcing the kolkhozes upon the peasants was the more bizarre the more evident it was how much more efficient was production on the tiny private plots of land held by households, a part of a device to which government had to resort whenever the almost permanent agricultural crisis started to deepen. Literature is replete with figures and analyses driving the same point: with literally insignificant share in the available land the privately operating households managed to achieve significant portions of the total agricultural output, in some years more than one third.

On broad segments Soviet policies had persistently stayed in sharp and more than evident conflict with realities. Some policy episodes are

especially illuminating. At the beginning of 1953 it was officially announced that the problem of grain production had been „solved“ but at the end of the same year Khrushchev declared that the official figures had been falsified and the privately held household plots had been announced and implemented (Geler and Nekrics 2000/1986/, p. 482).. This is just one of instance in which the salvation had to be sought in turning towards the miniscule private sector.

One important advantage has to be conceded to the Soviet-type economies and to the Soviet economy itself which made it possible to achieve impressive results for a limited period. It consists in the ability to spectacularly mobilize resources and to initiate admirably fast growth, again *for some time*. Economists are overly, if not exclusively, preoccupied with efficiency of the resource use and rationality of allocation. However the allocative efficiency comes to nothing if the resources are not mobilized. That seems to be the ailing side of a large number of contemporary developed economies and one of the forms in which the world economic crisis of 2007/2008 has so ominously manifested itself. The Soviet system proved able to mobilize huge amounts of resources and to initiate extremely fast growth based on such mobilization. This impressive stage of Soviet growth was extensively analyzed and was the cause of fascination of a large number of economists, including in particular those from developed countries with completely run in market economies.

Just a few figures will suffice. In the period 1954-1965 the electricity production grew from 150 million of KHz to 507.7 million, production of crude oil from 52.7 to 347.3 million tons, the steel production from 41.4 to 91.0 million tons and the coal production from 347.1 to 577.7 million tons (Geler and Nekrics 2000/1984/, p. 519). There have been other time intervals of strikingly rapid growth and especially of growth of the key products. The world was for a time fascinated by development acceleration the Soviet Union proved capable of achieving. Most fascinating are the figures on Soviet war production. Deutscher (1977/1967/, p. 441) compared Soviet war production during the II World War with war production of the tsarist Russia and the jumps in all key war implements are amazing. In the period 1942-1945 the Soviet average yearly production amounted to 40,000 of planes and 30,000 of tanks and armored vehicles whereas tsarist Russia produced none of these. Soviet production of artillery ammunition amounted to 120,000 pieces and the production of the same items in tsarist Russia during the World War I amounted to less than 4,000. The corresponding figures for machine-guns were 450,000 and 9,000 while the

production of rifles and automatic rifles turned out 5 times larger in Soviet than in tsarist times.

2.5 The Shadowy Side of the Socialist Growth Miracle

The impressive development performance of the socialist economies is thoroughly researched and well known. But there were and continued to reemerge increasing doubts and shadows. Nutter (1983/1968/) found that, how ever impressive, the Soviet growth had not been visibly faster than the growth of tsarist Russia in the couple of decades immediately preceding the 1917 revolution. He also compared Soviet growth with the USA growth in the period which, regarding the stage of development, had been comparable to the observed Soviet growth; he did not find significant difference. He endeavored to isolate other than institutional determinants of the tempo of development and found out that the peculiar and unprecedented institutional innovations of the Soviet economy had in reality, as far as the rhythm of development is concerned, not made any difference.

Other observations amounted to casting serious shadows on the Soviet growth performance. It was quickly observed that the Soviet system contained inherent tendency to overestimate development results. The planning bodies are known to be prone to impose overambitious and unrealizable objectives and that the managers of socialist enterprises faced serious risks in cases of underperformance. The false reporting was predictable and inevitable result. Geler and Nekrics (p. 433) state that lying had become a life style and that statistical information had become extremely unreliable. Setting aside the ethical implications of this scandalous reporting, the tendency and the imperative of falsifying production reports was found to change in time and some correlation between this tendency and the officially reported rate of growth was observed.

More importantly, the technical (input-output) coefficients were in the Soviet economy notoriously high. This means that the coefficients of value added were sadly low and that huge physical quantities contained low proportion of the value added which is the only component having some meaningful welfare content. Simply said, steel ate up coal, coal absorbed too much of electricity, the electricity production devored too much coal etc. so that relatively little remained which could satisfy final use – mainly personal consumption, as a counterpart of standard of living, and investment as a means of expanding production capacity. Huge production figures, apart from war production, did not provide a basis for decent living of the

populace. The less so as a huge proportion of the modest national income, as one of the conventional measures of value added, was extracted for the purpose of implementing a steadily increasing volume of investment.

A study made half-a-century ago (Madžar 1968, pp. 347 - 362) found that socialist economies have incomparably higher inventory-output ratios with notoriously inferior performance in serving the consumers (long queues, supply interruptions, protracted scarcities or even unavailability of many commodities including those essential ones...). The message of this finding is clear: the collectivistically institutionalized economies are considerably less efficient and behind large quantities there is a low and inadequate level of satisfying consumer needs.

The only thing the collectivist over centralized systems, including of course the Soviet system as the protagonist and the forerunner, is above emphasized mobilization of resources. In authoritarian systems with untouchable Party monopoly of political power and without having to face the critical confrontation of the general public, i.e. without political competition of other parties, there is an extremely broad maneuvering space in the division of national income into various types of final use: the government owning the bulk of productive capacity, but even independently of that, relying on brute force and unrestrained coercion, can take for the purpose of „social accumulation“ practically as much as it finds fit. Labor was also easy to mobilize: abundant quantity of rural labor in agriculture made it easy to commandeer needed numbers and the direct compulsion made it possible to allocate labor according to whatever plans happened to be adopted. Regimentation of labor was a part of the ruling institutional framework so that reallocation of labor was possible and actually practiced even when it came down to individual enterprises and to satisfaction of their daily needs for labor. In short, the government had all possibilities to increase both capital and labor in the modern sector of the economy, the one fostered and for some time rapidly expanded in the process of industrialization.

Thus, development could have been rapidly, here and there spectacularly accelerated through massive commandeering of both capital and labor. This was the pattern and the essence of so called *extensive growth*. The strategy of extensive growth can produce miracles, but alas just for a limited time interval. The fatal trouble with extensive growth consists in the fact that *it is not sustainable*. It is an elementary proposition of the theory of economic growth that sustainable and stable (lastingly maintained) rate of growth is achievable only on the basis of permanent

technological progress. Technological progress is a process of steady increase of the production relevant knowledge which makes it possible to increase value added without simultaneously increasing of the quantities of production factors. It is measured by the rate at which the economy would grow with given and fixed quantities of the factors of production.

For technological progress to proceed regularly and as rapidly as in the advanced economies *the system has to learn permanently*, and for that to become its inseparable feature the autonomy of economic agents, based on economic freedom, is needed. Only with economic freedom and institutionally secured autonomy the system will include broad masses of agents into the decision making and thus augment and continue keep at a high level its *decision making capacity*. Economic freedom at the same time conditions the necessary motivation and makes it possible for the system to develop rich cloud of interactions and thus generate large amounts of necessary and unfailingly precious information. Economic freedom and technical progress go hand in hand. Over centralized, administratively run and politically steered processes of management and control, with next to exclusive reliance on compulsion and prohibitions was deprived of any possibilities of generating satisfactory technical progress and was thus doomed on the long run stagnation. The alternative of exploiting technical innovations generated in marked economies was available, but the administratively structured system was extremely hostile to major changes and thus to initiatives and adjustments implied by advancements of technology.

The key failing of the extensive economic growth boils down to a fundamental structurally determined property of its rhythm of expansion: the system as a whole tends (and ultimately hits in the sense of equalizing) to the rate of growth of the slowest growing factor of production. If the slowest growing factor happens to be labor viz. population, then economic stagnation, as defined via *per capita* income is the long run destiny of the extensively growing system. If some other factor appears to grow the slowest, than the long run steady rate of growth, again defined through *per capita* income will turn out to be negative. The collectivist, politically domineered and economic freedom annihilating system of Soviet and other socialist economies could not generate the needed technical progress conceived in the broadest way and was therefore destined to be trapped into the state of long run indefinite stagnation. Empirically speaking, that is in fact what happened to socialist economies and that is the prime cause of their inevitable collapse. Such collapse has as a rule been followed by the collapse of the real economy as evidenced by dramatic breaks of the trends

of major macroeconomic aggregates; only those economies proved able to avoid such debacles which managed timely to shift to the fundamentally different market or, as some would say, capitalist system.

The collectivist system under observation proved extremely irrational. The imposing a priori reasons for its inevitable irrationality have been dealt with here to some detail. Another reason supporting this conclusion is its historical demise; in most countries it simply suffered dramatic collapse, while in some other countries (China) it was smoothly replaced with spectacular results due also to well taken macroeconomic policies. There is a third reason supporting the same conclusion. There have been invisible but huge costs accompanying very conspicuous but not repeatable results of the greatly hailed stage of rapid extensive growth. There are estimates according to which the not quite visible losses in agriculture accompanying the erection of huge and impressive projects, such as gigantic power station and steelworks, overweigh the value of these projects – a glaring example of the pattern of politically initiated and administratively steered projects: the results are overly visible and the costs are invisible, hidden in some deep background (Geler and Nekrics 2000/1986/, p. 213).

Beside the structural reasons contributing to this epochal failure there is one overwhelming political reason. Namely, among the fundamental economic propositions one immediately runs up against the requirement that in a rationally structured economic (and social for that matter) system *the consequences of decisions have to fall on the points of authority, i.e. at those agents and bodies who have taken the said decisions.* That elementary principle was drastically broken at the grand scale, in fact at the highest imaginable level, the level of the society as a whole. Communist party was the holder of all power and ultimately decided on everything associated with key social changes, i.e. on everything that mattered. It however carried no responsibility whatsoever (Geler and Nekrics 2000/1986/, pp. 675-678). Responsibility had been regularly shifted onto the operative bodies which most of the time were simply unable to implement arbitrarily taken and imprints of ignorance carrying decision of the Party bosses. Economic policy was replete with gross mistakes. E.g. the fiscal obligations imposed upon various kolkhozes were frequently unbearable because those deciding about them had no idea of fiscal capacity of various sectors of the economy and of there operation organizations. The state thus frequently took almost everything, not even leaving quantities necessary for sowing in the next year (seed). The result was that better-to-do kolkhozes had to assist those unable to fulfill obligations with the end

result that motivation structure had been practically eroded: what people were able ultimately to reap on the basis of their effort had no relations to the effort and accompanying skill itself (p. 481).

The unsatisfactory end results are predictable and easily explainable. Russia is in fact an underdeveloped country with the structure of a backward economy. That structure is dominated by production of raw materials, particularly oil and gas. Every significant change of the world market prices of these products affects strongly Russian economy one way or the other. The country is disturbingly similar to Saudi Arabia, with the difference that the per capita availability of exportable natural resources is considerably lower. With the exception of a limited number of traditional products (caviar, vodka...) one is unable to find any new, sophisticated product launched from there to the world market. Compared to China, Russia is technologically and economically abysmally inferior. Armaments production does represent an exception, but it is clear that it does not contribute noticeably to the living standard. Once agriculturally rich and widely known with huge exports of wheat and related products, the country is unable to feed its population and relies heavily on food imports.

2. 6 Summing Up

Information and the accompanying insights on socialist economic development should not be taken at face value. The rates of growth realized in the past are *not* a realistic indication of the genuine development potential of socialist economies. These rates are not representative for socialist institutional order as such but only of its reaches during a limited period within a specific development stage – the stage of extensive development. The reason of this impossibility for the high rates during times of extensive growth to be accepted as indicators of the socialist development potential lies in the unsustainability of rapid growth registered in development episodes of limited duration. The time covered by such episodes contains the development stage(s) during which the said growth relied on massive mobilization of production factors and demonstrated astonishingly low rhythm of increase of efficiency regularly measured by the rate of technological progress. Unsustainability of extensive growth makes the rates which it delivered incomparable with the rates of regularly unfolding growth which may be substantially lower but are sustainable. Strictly speaking the presently realized rates of growth could not and should not be compared with the historically recorded „socialist“ rates but with – if that were possible – the rates the socialist systems would deliver now, after the extensive growth sources have been exhausted. Such hypothetical rates

would surely be much lower, lower than the presently attained rates in the post-socialist economies. In view of the ruins with which socialist systems terminated their inglorious existence, a reasonable quantification of such rates could be zero.

How could one be sure about these hypothetical rates? One argument speaking in the favor of the assertion about lower hypothetical rates achievable in the would-be socialist economies had they been able to survive – lower than the rates of growth of the post-socialist economies recorded nowadays – is the just mentioned very fact that the socialist systems have fallen to ruins. One could take a zero or less than zero rates as a growth potential indicator for systems which have not been able to survive and presently exist only as a matter of history. There is a more convincing argument for those who eventually doubt and dissent. Development trends have been conspicuously breaking down during the time of existence of socialist systems. It is not the case that the socialist economies had been delivering the rates of high growth all the time, i.e. up until they had been replaced by some variants of the market economy. It is not the case that the rates of growth had plummeted abruptly at the moment of institutional turnaround, from high „socialist“ levels to (relatively!) disappointing levels in the post-socialist times.

Quite to the contrary, the grave socialist crises had been developing during socialist times, much before the epochal demise of these collectivist systems. Yugoslav economic history is full of such sorrowful incidents. More about such dashing falls of the rates of growth is known in Soviet economic history. It revealed a sort of long run fatigue as early as in troublesome 1960's. The tenth and the eleventh five-year plans contained intervals of crushing deceleration of the rates of growth both for the economy as a whole and for its key sectors. The rates of growth of 3.1% for the entire economy and of 4% for the industrial production (both for 1983) were hailed during Andropov times as significant achievements! The intervals 1976-1978 and 1981-1983 proved disastrous: a number of key sectors achieved rates between deplorable – 3% and 5% with negative rates, i.e. *declines of the output volume* having the upper hand. The declining development trends showed clear tendencies of prevailing more and more as times passed and Geler and Nekrics found it apt to state: „Brezhnev left to his successors a state organized as real socialism, with an economy struck with steady crises, super state exhausted with armaments race...an empire unable to solve any problem in the metropolis itself as well as within its borders in general“ (p. 664, translation by the author).

It is perhaps not exaggerated to conclude that, contrary to massive misinterpretations and sadly wrong convictions, the present mostly modest rates of growth in the majority of the post-socialist countries are *not* the product of the inferior arrangements of post-socialist institutional machinery but, quite to the contrary, have their deep roots *and clear manifestations* in the socialist times reflecting far-reaching deficiencies of the then obtaining institutions and policies. The socialist period not only produced the alarmingly deep precipitations in the rates of growth but also left a poisonous pill, an unfortunate legacy which hinders development in the post-socialist times and makes the corresponding actual rates visibly lower than they would in fact be had there not been stumbling blocks deriving from the socialist past.

There is then the question of costs. Any discussion of benefits is meaningless unless the costs, as the other side of every undertaking, are not taken into account. Fortunately, most conventional macroeconomic aggregates are by definition calculated net of cost. But in Soviet Union, and to some extent in other socialist countries, that methodological procedure doesn't apply fully. There was a lot of labor which had been performed under coercion or, in a way partial compulsion. For many years workers did not possess the right of selecting jobs and move freely where they found fit. To the extent that labor was imposed by order or command – while it is understood that the conditions of work were also compulsively imposed and never have been the subject of free negotiations – a large part of labor cost is simply omitted, better to say neglected. What to say about conditions of life which for most part had been paradigm of human suffering? Population was exposed to all kinds of horrible deprivations: hunger, steady unbearable scarcities, long queues and almost unimaginable waste of time, harsh winters with inadequate heating and untimely deaths which, among other, surely caused terrible grief among the survivors. What to say about police persecutions and secret service operations as a source of permanent fear and uncertainty? These psychic sufferings were surely enormous and immeasurable, but a huge mass of costs laid upon entire population they certainly have been. They are incalculable but obviously immense.

Costs in terms of unbelievable numbers of human lives are the next huge component of cost that has not been and never will be accounted for. Some numbers are given in the previous subsection. There are many sources containing the estimates of the lost lives and the data contained in these sources differ widely. But whatever estimates are taken, they are horrifying. Along with all wide differences they display a common characteristic: they are very, very large and almost stupefying. The need of providing

illustrative substantiation bears adding a few facts in this context, too. Cohen (1980/1973/, pp. 323-4)– notices that only in the period 1936-1939 7-8 million people were arrested, out of which 3 million were shot or perished in other ways. The Party itself suffered annihilating blows. Out of 2.8 million of Party members in 1934 more than 1 million were arrested of which 2/3 were executed. Out of 1,966 delegates of the XVII Party congress in 1934 1,108 were arrested with majority of them having been executed. Out of 139 members and candidates of the Central Committee of the Party 110 were executed or forced to commit suicide in 1934. Cohen (p. 324) states that the Bolshevik Party had been exterminated and replaced with a new, completely different party composed of obedient performers. Solzhenitsyn has estimated the *total* number of people who suffered Stalinist terror to 60 million (Geler and Nekrics 2000/1973/, p. 477).

This, however, was not the single way of annihilating life on the part of the regime. The unbearable living conditions – hunger, scarcities, fear and the lack of hope for the future...– have drastically deteriorated the demographic parameters of the population. The war has taken 15.6 million victims and there was a series of years with absolute decline of the population; the number of newly born in 1971-1972 amounted to just a half of the corresponding number in 1938-1939 (pp. 430-431). The same book (pp. 617-8) contains information on infantile mortality and life expectancy and both indicators had been dramatically deteriorating. E.g. from 1965 to 1975 life expectancy was reduced 4 years. The due conclusion is immediate: the institutional extravagancies and mistaken policies have been reducing life in two ways: by executions and other ways of direct extermination (with horrifying consequences during Stalin's and, less but still considerable, during times of Lenin who is well known for insisting on and ordering executions, with Geler and Nekrics noting this barbarity at several places).

Due to the irresponsibility of the reckless authoritarian system, Soviet peoples have suffered unprecedented losses and came out as unseen multitudes of victims even in times of great Soviet victories, those that are passed on to posterity with great and on one set of standards undeniably justified pride. The over centralized and over authoritarianized system, without feedbacks from democratically communicating environment, produced gigantic, unforgivable mistakes. The number of victims and the prisoners of war at the beginning of the World War II was impermissibly much bigger than would occur under any reasonable war preparation and military commandeering. It is easy to notice that Stalin's attitude towards risk was grossly different from the risk treatment of the western war

commanders; whereas the latter proceeded cautiously, making efforts to minimize the numbers of killed, wounded and taken prisoner, Stalin was incomparably „more courageous“ in that respect. In the Finish war just preceding the Barbarosa onslaught of the Germans Soviet Union came out as winner but with a number of 100,000 killed against Finish 20,000 lost troops. One cannot think of any globally sized field of actions where the loss of life on the part of the Soviets had not been stupefying.

Thus very unusual and otherwise rarely met costs have been identified, costs that are not taken account of in statistical calculations. These are the costs of suffering, fear, loss of human lives...To the extent that these costs have been avoidable – and they would not have appeared had there been no October Revolution – they can appropriately, and have to, be booked to the Soviet collectivist regime. Deducting at least a tentative, by no means exaggerated estimate of such costs shows the performance of the Soviet socialist system in drastically different, truly abominable light. Quite apart from the arguments stemming from a clearly different basis, the fact that the system underwent its global, epochal collapse without any prospect of reconsolidating speaks eloquently about its abysmal social irrationality.

Soviet peoples have suffered – through terrible deprivations and colossal loss of life – more than any other in modern history. In analyzing the generalized cost in the form of inordinate deprivations and loss of life – one certainly has to acknowledge possible exogenous determinants, the unrelated peripheral shocks which no-one controls or selects. Shocking mishaps can occur randomly and devastatingly, without any justification of placing responsibility on the rulers of the country or its institutions. In Soviet Union that reasoning doesn't work. Firstly, they are so huge that responsibility of the system builders has to be acknowledged even in the presence of most unfavorable exogenous circumstances. Every system has to have institutionally inbuilt defense against disasters of that size. Secondly, it is beyond any doubt that millions of the perished in Soviet Union fell victim of internal strife, inspired by „class struggle“ or otherwise; so that one could speak about millions killed and starved to death, the numbers that are directly ascribable to specific Soviet institutions and policies. They appear to be particularly ascribable to the power vested into centrally placed personalities and the lack of any institutionalized arrangement for protection against their arbitrary despotism. The end result of the „Great Soviet Socialist Revolution“ is the sad fact that Russian people and other peoples of the Russian Federation nowadays live much more poorly and live incomparably hornier lives than they would have had the revolution not taken place at all. This proposition is far from having

rigorously been proven here. The question arises whether it is at all provable, logically or otherwise. Yet, in support of this belief it is perhaps permissible to appeal to another personal conviction consisting in firm confidence that quite a few people hold the same intimate persuasion.

It is perhaps apposite to end this section with observation of an artist. Mandel'stam (1984/1983/, Volume II, p. 14) has such a touching passage: having stated that the official terror had gotten the size of a *pogrom* and that every moment carries perilous uncertainty for life and survival, she exclaims: „...we knew that there had been no future for us and that every day we managed to live through – had been a miracle“.

2. *The Scars of Socialist Institutional Heritage*

Vladan Desnica, a prominent Serbian writer from Croatia, has among a considerable number of highly praised works a very strange, one could say weird story. The story runs as follows. The person N.N. left his home in the evening of a sunny, bright day and never came back. The writer adds than *nothing else* was heard of him. *Nothing*. Leaning on the mere known and verified facts, nothing else can be reported about the destiny of N.N. But how a story could consist of a single sentence, ask the writer himself and the reader. Since such a story would be truly queer, the writer concludes that the story *must be continued somehow*. And only then the story begins in truth and a series of almost unthinkable events starts unfolding. It comprises quite a few „sentences“, it is a deep and far developing narrative.

This author is in a position which is very similar to Desnica's. The system which happened as a result of the socialist revolution, with the II World War as its deep background, was an authoritarian, collectivist social order based on coercion, violence and threats, physical and others, which gained considerable credibility because they were with sufficient frequency brought about in practice. Two fundamental pillars of contemporary civilization, and perhaps of civilization as such, the private ownership in the economy and the pluralistic, multi-party political system in the general public domain – were destroyed. No mention could have been made about rule of law. Legal certainty was eliminated, the individual rights and freedoms swept away.

Belonging to the family of the collectivist authoritarian arrangements, the system developed in a number of varieties in Yugoslavia and inherited in Serbia, possessed the basic features of such arrangements, which means that it fell rather deep into *pre-civilizational stages of broadly conceived social development*. Decades and centuries of evolutionary,

uncertain and haphazard yet successful and positive, development were simply done away with. This monumental destructive performance had to mean that the system was bound to be *ultimately* unprecedentedly harmful, wasteful in handling resources, unfree and violent with high costs not only in terms of material means but also in terms of human sufferings and human lives themselves. It also meant that the system was unsustainable and that its here and there spectacular upswings cannot be long lived and had to terminate with collapse and stagnation, the amazingly high cost of periodic accelerations of economic and overall development. Since life does not stop, the debacle of the system meant its replacement by a different, with structure diametrically opposed to the construction of the run out system. *As it turns out that the story of unsustainability gives a complete, though quite general and exceedingly broad, answer to the post-socialist collapse, this could be the end of the diagnosis and the analysis of the socialist system which unexpectedly and for some indeed unhappily happened to people in these lands, much as it looked that a strange sudden end was about to happen in the queer narrative of V. Desnica. But, again similar to Desnica's unusual setting, how could an entire section of a professional paper be resolved in and with a single statement? The show must go on.*

3.1 Memories of Socialism: Perception of the Electoral Body as a Colossal Political Obstacle

As a preliminary, the mistaken perception of the dynamic capacity of socialist system, of its propulsive potentialities, remains unshakable among the broadest social strata, as the saying goes: among „the large masses“of the population. This is confirmed by many surveys of public opinion. Thus Mihailović (2010, pp. 24-26) finds that in answer to the question what period was the happiest for the citizens of Serbia – the alternatives having been the period before the Second World War, the last decade of the past century, the first decade of the current century and the period of socialist development – no less than 81% thought that the socialist period had been the most agreeable! To the question of credibility of institutions, the alternative answers being those of times of Milošević, Đinđić, Koštunica and institutions of the demised socialist society (Tito's times), this latest option won 45% of the obtained answers, while the next one in the row (Đinđić's times) won only half of the pro-socialist figures, i.e. 23%! There are plenty of similar surveys, all demonstrating – in the eyes of the citizens – the superiority of socialist times and then ruling institutions. Indeed, many papers and books have been written on the superiority of the socialism in

the memory of the broadest public. However, cited figures are sufficient for this purpose.

A far-reaching conclusion drawn from surveys indicating massive desirability of socialism among such an overwhelming majority of citizens is about the forbidding magnitude of a *political problem deriving therefrom*. With so many citizens yearning for socialism it is next to the impossible to build a political platform which would be sufficiently attractive to the electoral body and at the same time secure a sequence of institutional changes leading to the successful modernization of the society. Such sequences, no matter how beneficial they might be from the point of view of the future economic and social development and how solid the reasons for its sustainability are, appear simply as a hard sell to the electoral body. On the other hand, the conviction of the prevailing majority of the voting public firmly tied to the would-be superiority of socialism offers ample space for political manipulation and all kinds of abuse, giving almost insuperable advantage even to those political agents who, ill-informed and inadequately educated, sincerely believe in the socialist ways of steering the society and lead the society astray without being conscious in their blessed ignorance of the huge damage inflicted on the country. It takes an Attaturkian political elite, one that will educate the society and simultaneously lead it. One does not need to develop long argumentative chains to prove that the likelihood of appearing of such Attaturkian miracle is negligible.

The lack of sustainability, not understood and not understandable to the voting public, is the key element of an answer to the question of the unsatisfactory development – or at least markedly less rapid than the one realized during the successful episodes of the socialist extensive growth – in the post-socialist development stage. How ever it might sound strange and not easily acceptable, the principal causes of the less-than-satisfactory *post-socialist development* are contained, and indeed hidden, in the preceding process of socialist development; the lack of preferable performance in the post-socialist, market oriented and – as theory undoubtedly suggests – decidedly more efficient economy *appears to be ascribable to the system prevailing previously; it is far from impossible that the periods of the most rapidly growing economy contained the seeds of collapse, the determinants of future deceleration and even stagnation*. After all, economists are for long and all around used to the effects of the time lags in economics. Economic phenomena are interdependent not only in a simultaneous cross section but also in the flows and sequences of time.

The burden of the socialist legacy seems to depend on the intensity and the sincerity with which socialist institutions and values had been accepted and embraced by the largest masses of population. It also seems that socialist ways of steering the development at large have let particularly deep roots in Serbia. The reasons for this phenomenon are hard of disentangle, but they probably stem from distant past and the peculiar collective memories; for peoples living under alien yoke for centuries collectivist merging together might have been the safest and the most efficient manner of preserving the identity. Be it as it may, the socialist heritage is not equally interred in all ex-socialist countries and Serbia seems to be among (or *the*) most handicapped. Socialist legacies in Serbia are quite visible – high share of the state owned sector in production, aggregate value added, capital and other macroeconomic aggregates, large spread of administrative price controls, conspicuous party allegiance as a criterion for selection of managerial personnel and other cadres in the public administration and the public sector, fanatic preservation of the loss making public sector giants, a the disturbingly high share of nonperforming loans in the banking sector, the inefficiency and the sluggishness of the judiciary, the high presence of destructive ways of enlisting electoral support by judicial persecution of the businessmen, particularly those big and best known...– and it is their bewildering mass that is to be looked at in search for the causes of collective preferences causing slow development. As it turns out, in recent decade or so there is only one among ex-socialist countries having a lower rate of growth of the GDP than Serbia. After all, an all too frequently used *ceterum censeo* of this author has to be repeated here, too: the ultimate, truly basic determinants of economic development are located far outside of the economy!

Ascribing the present unsatisfactory development to the legacies of the demised socialist system will certainly meet with sharp controversies. That should be seen as no surprise because the facts and their interrelations are numerous and interaction among all these, not even enough visible elements are highly variegated and in a way superimposed upon each other in thick layers. The difficulty of encompassing and clarifying the – in many ways – interdependent effects of extant legacies are perhaps best observed if one takes account how unclear and poorly understood was much simpler problem of ascertaining the effects and consequences of the collectivist system at the time of their existence and actual working. It took such a high class annalist as Nutter (1983/1959/) to disentangle the real achievements of the system and the regularities of its functioning.

The path breaking work of Nutter produced a lasting shock not only within the profession but also among much broader collection of concerned circles in the society. The limited information and lack of comprehensive and systematic analyses made it impossible to see Soviet realities of the time and greatly contributed to constructing overoptimistic and unduly favorable picture of the alleged success stories of the „socialist miracle“. The unfounded belief in the extraordinary development potential and unprecedented vitality of the new system continued to dominate the professional thinking despite the fact that Nutter established firmly and irrevocably that tsarist Russia experienced more rapid growth than Soviet Union, and, indeed, within periods of approximately equal length (some 45 years; Nutter (1983/1965/, p. 182). Even more shocking was the discovery that Soviet growth had not been more rapid – the rates of growth are in fact almost equal – than the *comparable* U.S.A. growth. Namely, there are a number of *noninstitutional factors* affecting development which make for higher or lower rate of growth and are unrelated to the economic efficiency and propulsive force of the observed system. Nutter took care to isolate such factors as far as possible, mostly by not observing cotemporaneous growth and selecting *comparable periods* instead; these were the periods in which noninstitutional development determinants, such as level of development and a number of exogenous factors were close in the two countries if not exactly equal (1983/1965/ *passim*, especially pp. 173-177).

Two such evidently unusual findings – the tsarist growth having been more rapid than the Soviet development and the higher than Soviet rate of growth accomplished by the U.S.A. in the comparable development stage and similar macroeconomic environment – should have shocked the public both professional and the broader one, but the myth of Soviet extraordinary capability lingered on and lasted almost up until the break-up of the Soviet empire. The point of this argumentation is that some truths do not become either easily or quickly accepted and in fact the most rigorous proofs don't contribute substantially to their acceptance. If the truth of tsarist Russia having been somewhat more rapid in its development than Soviet Union did not get through for such a long time, it is obviously reasonable to expect even more resistance and more time until the relevant findings are accepted when it comes down to recognizing the perilous influence of socialist *legacies*.

In comparing the Soviet and American rates of growth Nutter could not take into account the important fact that Soviet growth had been realized as an *extensive growth*, which means by massive mobilization of the production factors, through mere and spectacular *increasing quantities*

of these factors rather than through persistent increase of their productivity. The extensivity of growth is best seen through the relationships between the growth rates of employment and of output, the former being much above the latter. The two development episodes were in fact incomparable as the Soviet growth, how ever rapid, was not sustainable and on that account alone had been vastly inferior. The lack of comparability derives not only from the simple fact that extensive growth is short-lived if not ephemeral but also from the fact that it generates pressing *constraints on future growth*, the sluggishness of the development in the future is in this case not due to the then conducted development policies but to the ways and means through which the extensive growth had been realized in the past.

Accelerating development through massive mobilization of the production factors while neglecting technical progress as the only source of sustainable growth means predetermining perilous deceleration of future development, when factors of production, how ever abundant, simply exhaust their growth potential while the necessary rhythm of technical progress is not assured to take over the role of the driving force in the process of development. A more general statement can be developed here: on the eve of the socialist turnaround – and this happens to be true for any economy at any point in time – the economy had a number of once-and-for-all, temporarily exhaustible development opportunities and consuming any of them means that it will not be available in the future. Through extensive growth, but also in other ways – exploiting easy development options enabling the system to accelerate growth substantially for a limited time at the expense of accumulating all kinds of bottlenecks which of necessity dramatically decelerate growth in the future – opportunistic development policies deplete the fund of unrepeatable options and thus achieve marked effects for a limited time at the expense of the imminent future slowdowns. The time interdependency of the growth rates makes it impossible to judge the efficiency of whatever development policies by weighing the simultaneously realized results, registered at the times to which such policies directly apply. The crucially important, but unfortunately regularly missing component in judging such efficiency is the dynamic potential which the observed policies bestow upon the future.

3.2 The Mechanics of Extensive Growth and the Inevitability of Deceleration

Considerable stress has been laid on extensive growth here. It is therefore necessary to provide a brief theoretical sketch of its dynamics and the factors determining the changes in its rhythm with ultimate deceleration as

an unavoidable result of the nature of the underlying interrelationships. The most concise, the easiest and the clearest way of laying down the pattern of extensive growth is through a mathematical model which delivers definitive and easy to comprehend results. The insights provided by the model are exact, obvious and waterproof, of course all that under a number of simplifying assumptions. As mathematics doesn't fit into this type of the paper, an effort will be made to reproduce the mathematical derivations in words.

The key element in this verbal interpretation of corresponding formulae is the rate of growth of capital. It is defined as a ratio of net investment (= accumulation), i.e. national savings and the capital itself. As national saving are a multiple of the rate of savings and national income, the rate of growth of capital, in the model based on deducting the depreciation and dealing with net quantities, is obtained by multiplying the rate of savings with the national income and dividing this multiple by the value of capital.

Extensive growth is initiated by and boils down to a sudden and marked increase of the rate of savings. The new authorities forged through the revolution are development centered and political monopoly, a part of their definition, enables them to rise the rate of savings abruptly and vigorously; indeed, such dramatic increase of the part of national income taken aside for capacity expansion by the virtue of definition raises the rate of savings and thereby, again by the very definition, the rate of growth of capital. Such an abrupt and strong increase of the rate of growth of capital induces the process of its gradual but sustained *decrease*. Yes, such a discrete upward shift of the rate of growth of capital becomes the cause of its subsequent continuous decline. This is the essence of the lack of sustainability of extensive growth: as *the rate of growth of the rate of growth of capital* is, for a newly fixed saving rate, equal to the difference between the rates of growth of the national income and that of the capital, discrete increment of the latter makes *the rate of growth of the rate of growth of capital* negative. That really boils down to the above mentioned statement that abrupt, once-and-for-all increment of the rate of capital growth becomes the driving cause of its continuous decline. Extensive growth predictably tends to secular stagnation. All this happens in a set of circumstances in which capital is the fastest growing production factor, which also could be taken as a part of the definition of the extensive growth.

The model is transparently generalized by introducing additional factors of production, additional to the capital and labor which

conventionally figure in most models of economic development. In further working out of these models economists have introduced additional factors such as land, a summary variable for the versatile collection of natural resources. In such a generalized setting little is changed, but one insight comes forth as decisive: in the model of growth based exclusively on the expansion of the factors of production the long run, *steady state rate of growth of the national income comes out equal to the slowest growing production factor*. Taking roughly *per capita* income as a sort of indicator of social welfare and a general goal of development policy, the best long run (*steady state*) this generalized model can deliver is ***stagnation of per capita income***. If the slowest growing factor is not population-cum-labor force, but any other factor, the steady state rate of growth will be equal to the rate of such slowest growing factor, that rate will be less than the rate of population growth and one arrives at a macroeconomic set-up of long run or ***secular regression***. The model turns into an analytical picture of long run decline, with permanent deterioration as the unavoidable destiny of the macroeconomic system (defined as the set of interconnected parts making up the economy as a whole).

The next easy statement refers to the functional requirements appearing as the necessary conditions for sustainable, steady state ***growth***. These consist in the necessity for the system to secure a positive rate of technical progress defined as the rate at which national income would grow with fixed quantities of the production factors; clearly, such growth must be due to uninterruptedly increasing efficiency in the form of equally continuous accumulation of productively relevant knowledge. For the sake of brevity, conditions of regular and continuous technical progress are ultimately reducible to institutionally secured and legally guaranteed economic freedom of the largest possible number of economic agents, it being understood that the freedom must be guaranteed by the laws of the country and the legal system enforcing them and applying them to all individuals and organizations ***equally***. Entrepreneurial undertakings will undisturbedly unfold only with economic freedoms secured and with proper motivation for a large number of economic units to search for new products and processes and constantly to innovate. The system as a whole learns successfully only by and through learning of autonomous units appearing as its elements.

When the rate of technical progress enters as an additive term into the formula for the rate of national income growth – the remaining part of the formula consisting of the weighted average of the rates of growth of labor and capital, with the weights equal to the elasticities of the national

income with respect to those production factors – the possibility of the steady sustainable increase of income *per capita* props up and one arrives to a configuration of dynamic components diametrically and fundamentally different from analogous configuration of development trends typifying the extensive development. The rate of growth of *per capita* income generated by this model containing technical growth is equal to the rate of technical progress itself divided by the share of labor in the functional distribution of income, i.e. the elasticity of the national income with respect to labor. It turns out that the rate of *per capita* growth, i.e. per worker or inhabitant (the share of the workforce in population being assumed constant) is an inverse function of the share of labor in the functional distribution of income. This result would be beautiful even if it were incorrect: in a dynamic context labor is better off the less it participates in the distribution of income, assuming that all non-labor income is entirely invested into the expansion of productive capacities. Under these admittedly restrictive assumptions, the genuine interest of labor, exemplified by the *speed* with which its income grows in time, is best served with its low, as low as possible, participation in the distribution of current income.

Going back to the extensive growth, its tragedy consists in the absence of technical progress due to the lack of economic freedom(s). With over centralized economy and its predominant if not exclusive administrative guidance, economic units do not have maneuvering space for independent deciding, the enormous mass of agents are excluded from creative experimenting and accompanying generating of new technological solutions, the system is doomed in the sense of having to rely only on mobilization of productive factors as a source of growth and at the same time doomed to a development deceleration in a somewhat longer run. Moreover, such a system generates forbidding constraints on future development, even when it unfolds within completely reformed institutional order. The public at large, and even a large part of the profession, ascribes development deceleration to this new, market oriented set of institutions, thus blocking the change and making it politically difficult to continue developing the long awaited truly decentralized order with its yet unrealized development potential. Mistaken diagnoses and erroneous analyses are not the only and probably not the most important determinant of the mistaken policies but they certainly contribute a lot to them, more indirectly than directly. A detailed analysis of the limitations of the socialist extensive growth – spelled out by the models belonging to different classes, those with fixed coefficients and the ones with possibilities of substitution between the production factors – is provided by Madžar (1990, pp. 320-335).

3.3 Additional Aspects and Further Consequences of Socialist Growth

The false perception of unusually rapid extensive growth realized by and within the socialist institutional order can arise from the very methodology of computing the rates of growth and could be qualified as a statistical artifact. Socialist development was typically characterized by deep and far going structural changes. Exceedingly deep structural changes imply a comparable variability of the sectoral rates of growth. Rapidly growing sectors have relatively small initial size with relatively high relative prices and high terminal values with relative prices considerably reduced. As the weights in calculating the growth rates for the economy as a whole are determined by high initial prices, the high sectoral rates get very high weights. For the same reason the slow growing sector obtain low weights. The result is an overvalued growth rate for the global aggregate relating to the entire economy.

At the end of the so determined period statistical series undergo a procedure of updating and the system of weights markedly changes. The sectors which have previously been growing at the above average rates become thus relatively abundant and command the lower relative prices while a new set of sectors coming out as proportionately scarce command high prices. The same phenomenon repeats itself with the new set of rapidly growing and large weights obtaining sectors and again there emerges a very high rate of growth for the entire economy. The successive overvaluations of the global, economy-wide rates of growth mutually build themselves upon each other with the curious result that very high rates are registered for the economy as a whole and for the entire encompassed period, with significant interim changes but not necessarily with sizable changes in the real, say physical aggregates of the system. To illustrate this curious phenomenon, Madžar (1990, Appendix to Chap. III, pp. 293-294) has constructed a curious example of a two-period system which, having started from an assumed real term sectoral configuration, after the second period comes *back to the same configuration* – with nothing, after all, having been changed – and yet with very high rates of growth registered in the observed interim.

It must not be forgotten that the strategy of hasty growth, which has been so typical in socialist systems and which is so amenable to outings into the areas in which growth can relatively easy be accelerated, on that account alone accumulates numerous development damaging bottlenecks which eventually have to be dealt with but at disproportionately high social

cost. Before the system starts threatening to break up under the pressure of accumulated bottlenecks, urgent and – because of urgency – hard – to coordinate corrective measures have to be undertaken. Considerable waste of resources is obviously implied. Nutter (1983/1959/, p. 178) singles out excessive accumulation of inventories as an important component of this heavy social cost. As these inventories tend to be permanently tied to the frequently disturbed and policy shocks exposed production processes, it follows that a part of the statistically recorded high growth rates gets eaten up in the periods of above average changes in the development rhythm.

More generally, a high inventory-turnover ratio is a reliable indicator of the overall inefficiency of an economy. This is the place to recall once again the findings of international comparative analysis which indicate distinctly high inventory-output ratios in the socialist economies with generally known and ill-famed intolerably low standards of consumer service (Madžar 1968, pp. 347-362). Shifting back and forth among various collections of permanently and pressingly growth constraining bottlenecks, with exorbitant accumulation of inventories on this and on many other accounts, creates chaotic constellations of mismatches and the, resulting deeply ingrained mess is a most unwelcome heritage hampering development for a long time after the demise of the socialist order. Here is again one of the reasons of insufficiently rapid growth of contemporary market economies which is not determined by any of their structural characteristics but has inextricable roots in the preceding collectivist order.

A much discussed and overly important phenomenon, which is both a mechanism and an aspect of extensive growth, is the, again ill-famed, mechanism of price scissors through which socialist development was to a large extent financed and which had served as a coercion based arrangement of brutal exploitation. First of all, coercion meant that the authorities had been able to fix arbitrarily price relations within very wide limits. These relations had been fixed brutally in the most exploitative way. Huge amounts of income were ultimately transferred from, anyway underdeveloped and in the largest part literally backward, rural agriculture to the socialist sector to finance ambitiously blueprinted and not happily steered industrialization.

This is an one-shot device of development strategy *par excellence*. The process of extracting income from the privately owned peasant agriculture has to come to an end because the socialist nonagricultural sector grows much more rapidly than the rural agricultural economy; the ratio between the two segments becomes more and more skewed in favor of

nonagricultural socialist segment of the economy. Once that sector becomes too large in relation to agriculture, it obviously becomes simply impossible for the bulky, overgrown sector to live and develop at the expense of the relatively small, excessively diminished sector. The sheer proportion of the sizes of the two sectors eliminates this exploitative way of nourishing the state run and collectively organized part of the economy by drawing resources from an economic segment which, relatively speaking, tends towards insignificance. It should be added that, in as much as the economy acquired certain market characteristics, the exploitation of the village by the city located, urban turned and collectively organized part of the economy was to a recognizable degree facilitated by the marked differences of the market structures: highly competitive sector of the rural agriculture was confronted with the much more monopolized sector of the nonagricultural activities.

Any developing economy, even the one growing through implementation of extensive growth strategies, becomes more complex and more challenging regarding coordination and dynamic steering. A physically enlarged economy and the one growing, among other, on that account, needs more and more decisions to be tolerably managed and to function with bearable efficiency. Some sort of decentralization becomes imperative. Haphazard and inconsistent decentralization within politically led collectivist systems creates the problems of its own and contributes to the chaos which, as a part of socialist legacy, again acts in the post-socialist development as a constraining factor. More than that, the epochal turn to market system following the demise of the socialist order creates an intensive need for new systems of coordination and steering and such fundamentally different systems cannot be created off-hand. The long time and unavoidably high risk with uncertainty could and should be seen as the reasons for the institutional lacunae which persist until the new regulating arrangements are eventually built up. Such lacunae act as an additional, independent source of growth deceleration in the post-socialist period.

3.4 The Unique Development Opportunity with Unlimited Supplies of Labor

The idea of accelerating development within a limited period is a classical one and is long ago analytically well worked out. The obligatory source for the analysis of the associated phenomena is, again classical, paper by A. Lewis (1963/1954/). It was inspired by existence – and a truly large number at that – of societies with large and overwhelmingly dominating rural areas, with population having economic support in agriculture and with extremely

unfavorable factor endowment. Labor is, namely, overabundant and capital extremely scarce, with land and other natural resources not sufficiently available to compensate for the scarcity of capital. Poorly equipped with complementary production factors, labor has exceedingly low marginal product with negligible contribution to the social product. Such composition of resources makes it possible for labor to be reallocated out of peasant agriculture to other production sectors, hopefully the core of the nascent island of modernization, without discernible effect on the agricultural production itself. Oversupply of labor with corresponding marginal product being close to zero – analytical device for designating the economy with surplus labor in agriculture is simply attributing *zero value* to the marginal product of agricultural labor – means that labor can flow out of agriculture without reducing the social product generated in the rural segment of the economy.

The key ingredient of the model with unlimited supply of labor is the existence or appearance of a modernizing agricultural sector which could draw on these abundant labor supplies and accelerate development of the cluster of nonagricultural activities without any negative impact on agricultural output. An alternative manner of spelling out the same idea is to state that the opportunity cost of labor is zero. The theory of development with unlimited supplies says nothing on how to get hold of the core of the modern nonagricultural activities or on the mechanism and manner of its appearance. That core is simply taken for granted. But, once the core is in place, the economy is endowed with a very favorable set of circumstances for rapid and, moreover, for long accelerating development.

Due to oversupply of labor, the wage rate for the modern sector acquires a precious parametric property: it stays equal to the rather low *average product in agriculture* and, no matter how much labor is reallocated from agriculture to – so to speak – modern sector in the making, the wage rate remains fixed to the said average product of agricultural labor. A milder version of this idea consists in allowing some moderate increase of the wage rate paid by the modern sector, but the increase is slow and low and the economy as a whole is characterized by a very low pressure of wage increase.

Be it as it may, the low or no increase of the wage rate means a low pressure on cost and the resulting high profitability of the modern sector. Due to the fixed or very slowly increasing wage, the difference between the labor productivity and the wage itself gets very high and remains high for as long as surplus labor flowing from agriculture is available. Important fact to

be noted is that the (persistently high) difference between labor productivity and wage is – as immediately follows from simple algebra – equal to the profits per worker. High amount of profits is – again abundant – source of financing development of the modern sector. For this to happen and to last it is necessary for these profits to be appropriated by the newly emerged entrepreneurial class, which is likely to happen as these entrepreneurs *initiate (or implement early stages of the)* industrial development, thus taking on the double role of entrepreneurs and providers of means for financing development. The entrepreneurial and means providing role is not necessarily reserved for the private sector; as Lewis himself underscores, the same double role can be taken by a development oriented state – the availability of means and readiness to invest remain in place and accelerated development unfolds without difficulties provided one assumes, as Lewis does, no problem of wasteful allocation would arise due to possible perversions of allocation of funds handled by government.

The possibility of appearance and preservation of the described powerful mechanism of generating investible resources is not the only virtue of the described constellation with surplus labor in agriculture as a dominating and defining feature. Constant or at least slowly growing wages condition low and slowly growing *costs* with two important consequences. Firstly, as wages appear as the largest component of cost, due to low wages economy remains highly profitable; this means that the motivation for investment remains high and that the prospects of a lively investment activity remain significant. High profitability of the economy has always been and will remain for good a favorable component for the expansion of investment and propulsive economic development. This is a lasting and unalterable advantage of the economies with unlimited supplies of labor. This implies a reasonably defensible position of savings inducing the corresponding investment rather than the less convincing Keynesian position – occasionally applicable to the developed countries, and even to them in exceptional situations of lacking aggregate demand and (much!) less than full employment – of investment generating so to speak the savings necessary for providing the requisite financing.

The second advantage is international competitiveness. Fixed or slowly growing wages make for a low rate of inflation which necessarily supports and upholds favorable competitive position. One might recall that the real exchange rate is computed as the product of the nominal exchange rate and the relevant index of increase of international prices (usually the rates of general price increase of the principal partners in foreign trade weighted by the participation, as measured by shares of these partners in

„our“ imports plus exports) with this product divided by some measure of domestic price increase. Having this measure at numerically high levels makes for high real exchange rate and a high degree of „our“ competitiveness in foreign trade and, more generally, in broadly defined international relations.

One aspect of the development promoting reallocation of labor from the peasant agriculture to the core of the modernizing non-agricultural activities and, at the same time, a separate mechanism contributing to the temporary acceleration of development is the fact that the mere transfer of labor acts as growth accelerating force: reallocated labor reduces value added in agriculture by a modest amount measured by the notoriously low corresponding average product and adds an incomparably higher average product realizable in other, more productive industries. Among other valuable insights, Lewis offers the following intriguing observation. Entrepreneurs and management in the modern sector are *not* interested in modernizing and developing traditional agriculture because average product there is the opportunity cost of labor and its increase inescapably induces accompanying increase in wage rates and average costs in the economy.

It is evident but immeasurably important that the stage of development characterized by surplus agricultural labor is an once-and-for-all development opportunity: denotement *unlimited* is to be understood metaphorically – as long as the surplus exists, the economy is, functionally speaking, as if the quantity of labor is infinite – and if and when the surplus becomes exhausted, the entire mechanism of stimulating development through the inflow of *thus ensured* cheap labor ceases to exist. It should be obvious that such a mechanism must have played an important role in Yugoslav economic development and that its waning turns up as an equally important part of the explanation of the lowering of the rhythm of growth in the post-socialist development stage as compared to the visibly higher rates of growth in the more successful phases of socialist economic expansion encompassing the stage(s) of extensive development.

3.5 Interdependence between the Rate and Level of Development in the Context of the Unlimited Supply of Labor: The Yugoslav Experience

A partly related issue to the peculiar development model reflecting unlimited supplies of labor is the relation between the rate of growth and the level of development. Accelerated development due to significant, in fact as large as needed, inflowing flows of cheap labor takes the system relatively quickly into the realm of development altitudes which are substantially

higher than the initial level from which the system started its advancement in the new regime. This cannot fail to make a difference. There is a general empirical regularity, widely and fundamentally transcending the model with unlimited supplies of labor, consisting in a quantitative, mathematically expressible relationship between the rates of growth (of various macro-variables) of the system and the level of development at which the observed growth takes place. Mathematically expressed, the relation is marked with a negative first derivative of the said rate of growth with respect to the magnitude of the aggregate to which this rate refers. The conventional, most frequently studied relations are those between the rate of growth and the level of the *per capita* GDP. Several researchers have examined this analytical connection and the prominent one who did such a study was Branko Horvat (1974).

In connection with the said relationships two aspects are worth pointing out. Firstly, the acceleration takes the system to the higher development levels at which the forces slowing the growth set in. The strength of the influence varies across different cases and generally does not have to be strong but it certainly carries a part of the explanation of lowering the rhythm of development measured in several consecutive time intervals. Secondly, the less developed economies, the ones that as a rule enjoy the benefits of unlimited labor supply, are more subject to fluctuations and oscillatory motions in general. Moving through business cycles is a form of instability and a source of disturbances, bad enough in themselves, but also growth hampering. Moreover, if the cycle has sufficiently high *amplitude*, which is usually accompanied with a relatively long *period*, the distance between the trough and the peak is sufficiently large to allow for effects of negative impact of level of the relevant variable on the dynamics of its growth at that point or period of time. If the relevant variables in the study of relationships between the level and tempo of growth are income *per caput* and its rate of growth, then if one centers at a point in time, the magnitude of the relevant variable acts as an explanans of the speed of its augmentation. However, if one observes the development process in a longer time interval – say, in the medium and particularly in the long run – the rate of growth becomes an explanatory variable of itself! High rates of growth turn out to be determinants of their future decline! True, that connection is indirect and roundabout – the rate has an impact on future levels and these levels in turn influence the future rates – but it is undeniable and unretractably working.

The connection between the rate and the level of development, representing some type of an empirical regularity, does not have unique,

impeccable and generally accepted theoretical foundation. The mathematical form in which this connection is analytically articulated either and probably cannot even be uniform as different cases display different forms of interdependency. The reasons making for such dependence are multifarious. A reason likely to be of particular relevance for the economies growing in the regime with unlimited supply of labor is very fast growth of the economy itself without correspondingly quick adjustment of institutional superstructure needed for regulating such economy and coordinating its dynamic and ever growing in number and increasing in complexity intensely functioning processes.

The inability of the system to adapt its institutions to the explosively growing real economy is bound, sooner or later, to start acting as a decelerating force. Branko Horvat has written many effective and likable works (such as 2001, pp. 75-101; 1984, pp. 13-27) in which he criticized the then socialist authorities for not developing the institutional system enough rapidly to keep pace with dashing growing economy. He claimed that the country had been endowed with sufficient expertise and that new knowledge could have been quickly assembled where absent and needed, so that the lag of institutional adjustment behind fast growing economy had been neither necessary nor permissible. Horvat was not ready to acknowledge the constraints in knowledge nor limitations in its speedy acquiring when and where lacking. Horvat was a man of rarely powerful intelligence, which is an enormous asset and lucky strike for those fortunate enough to have been able to interact with him.

This, however, becomes dangerous when and if such spiritual might is projected over a wide space of intellectual activities and social circles. Overestimating existing knowledge and potentialities of its rapid expansion means unjustified and dangerously damaging neglect of what most of the time predictably proves as the ultimate constraint of and in the entire human existence. The danger of running into pressing constraints of knowledge appears to be uniquely threatening in the countries with „unlimited supplies“ of labor where the economy can accelerate abruptly and continue developing with extraordinary rapidity without timely institutional adjustment. The lag in the latter happens for the simple reason that building and modification of institutions is, like anything else in the management and control of complex entities, an involved and hazardous process confronted with many constraints, not least among them being the limitation in the available knowledge and in the educational and other processes of its augmentation.

There are several reasons for the rate of growth being a declining function of the level of development. These reasons are to some, predictably varying degree, related to the accelerating stages of development in the regimes endowed with „unlimited“ supplies of labor. The first among them is, along with above mentioned institutional development lagging behind the „real“ growth of the economy exemplified by the physical increase of the principal macroeconomic variables, the evolving intricacy of formulating and implementing economic policies in the expanded system burdened with numerous complexities. The legacies of the old times conditioned by the inertia of the administrative ways and means of steering the economy are again among the determinants hampering development and reducing efficiency. Policies appropriate to a market economy are hard to conduct and enforce with cadres trained and accustomed to dealing with government directed and administratively regulated economy. This is the reason because of which the likelihood of mistakes is significantly raised with expectedly unfavorable consequences regarding the tempo of development. Again, this is a line of causal impact through which the socialist past reflects very adversely upon post-socialist present.

A more general reason, cutting across various growth regimes and not necessarily tied to conditions of labor supply, not even to the legacies of socialist past, is the fact that a rising economy never implies proportionate increase of all its components. Some of them grow more slowly of necessity and some of them don't grow (e.g. territory) at all. In other words, growth, especially the rapid one, implies the change of the mutual relationships of the components conditioning it. Such change in composition calls for new adjustment which also predictably lags and induces the declining contribution to growth of those components whose size increases in relative terms. The decline of the contribution of the components having become more abundant happens before increase of those whose size has relatively declined. This complex set of interrelated changes could perhaps be called the generalized law of diminishing returns. With area of the observed country, which as a rule remains fixed in size, there are a host of factors which are tied to area and which either remain fixed, too, or grow rather slowly due to that connection.

In addition to all of this, a developing economy makes it possible to improve the health conditions, to reduce the infant mortality and to increase life expectancy. The aging population thus places a continuously increasing burden on the rest of the population with clear and immediately visible depressing effect on economic growth. On a fundamental plane this effect has nothing to do with the institutional framework of the economy,

but as it appears later in time and coincides with turning of the economy to the market system, it, too, together with other lagged effects gets unjustifiably ascribed to the now prevailing market system and beefs up, again unjustifiably, the argumentation against the radical reform and for the vanished and defunct administratively led system.

3.6 Socialist Heritage Revisited: The Scars in the Collective Memory

A market economy cannot rely on the centrally initiated action and the role of the government in the cardinally important driving of the mobilization of economic resources. At least that reliance cannot be, not even approximately, comparable to the governmental contribution to the mobilization in past dominated by the socialist state. The primary movers of the resources and key agents in their mobilization have now become private entrepreneurs with their expectations, ambitions and, to use the well known Keynes's term, *animal spirits*. Entrepreneurship is a deadly hazardous business by and in itself. It calls for special imagination, extraordinary courage, the affinity towards risky moves and the ability to select wisely from among a vast number unclearly observed and only partly knowable, never wholly understood options. On top of all that, the choices have to be made quickly and energetically: life never stops and opportunities come and go, with little prospects to reemerge. Few people have entrepreneurial abilities, according to most estimates less than 2%. By performing their function, entrepreneurs contribute an awful lot to the rest of the society: by undertaking their hazardous ventures the visionary individuals employ and assure the existence of the hundreds and thousands of other, „ordinary“ people.

Because of the inevitable objective exposition to the risk and all kinds of uncertainty – initiating of the new businesses is neck breaking in and by itself – entrepreneurship cannot successfully flourish and smoothly develop if it is additionally exposed to the institutional and policy risks. The basic, indispensable condition for tolerable development of a market economy is stable, predictable and within the limits of the possible *rule based economic policy* so that at least institutional and economic policy hazards are minimized if not entirely removed. The top economists of the world have persuasively been explaining the actual weakening of the developed economies and the malaise of unstable and insufficient growth by the volatile, reactive, here and there whimsical acting of economic policy, particularly monetary policy, and have pleaded for introduction of rules in carrying out of most policies, so that economic agents can within reasonable

limits predict the policy moves as responses to various exogenous events (Metzler 2014, Epstein 2015, Hanke 2016). Let it be added that only a stable, algorithmically clean economic policy can provide valuable service in coordinating flows of decisions and resources in a decentralized economy.

Not much has to be elaborated regarding the series of fatal blows administered to entrepreneurship by the often discussed series of socialist revolutions. Lives were annihilated and properties confiscated. After undergoing risks and anxieties, upon investing so much of effort and thought, following the careful and painstaking considerations of options and alternatives, the happily acquired results were simply taken, mercilessly confiscated in one single coercive sweep. One should recall that successes in entrepreneurship are incomparably rarer than reflected in the popular perception: the *failed* entrepreneurial undertakings are not seen and the public is generally not even aware of their existence and exact data on failed business ventures will never be available. If on the average, say, only one out of hundred succeeds, it is easy to imagine what a personal blow every confiscated entrepreneur suffers.

Entrepreneurs do *not* carry out their activities just for money; entrepreneurship is the field of their creative activity. By founding and expanding new businesses they *create*. Taking away their wealth would in a sense be equivalent to wiping somehow out books and articles produced during a good part of the lifetime by a writer. Attack on private wealth is tantamount to an encroachment on person and her dignity because the accumulation of property for a successful entrepreneur is the true and only manner of self actualization, an evidence of having created something of value in her productive life. As owning various things is undeniably an important aspect of existence of every individual and since even *moderate size* holdings and other forms of wealth were hit by confiscation, it is evident that millions of people were affected and this institutionalized plundering must have left unalterable and irreducible marks in the collective remembering; it is destined to figure as a highly relevant social fact for a long lasting future.

Confiscation of properties was therefore a mortal blow to entrepreneurship. Along with being an act of destruction of one of the fundamentally important pillars of civilization, it was a trauma never to be forgotten. Because of the mentioned deep imprints on the collective memory, the society as a whole will remember the horrible downfall into subcivilizational abyss and remain conscious about meager prospects, better

to say hopeless perspective of pulling itself out of that barbaric precipice. This historical destruction of property as the institutional carrier of a market economy must have so deeply impressed the population that it clearly appears to be bound to make for a stupendous constraint on all forms of entrepreneurship for a very long time to come.

We are again confronted with a formidable legacy of socialist order, with an element which originates in the socialist past but generates its deleterious impacts on the post-socialist present. Concrete actualizations of institutional systems in post-socialist countries do and have to differ among themselves, but this effect of the socialist heritage is common to all, it cuts across different systems and remains working and vigorous in time. This is the account on which the performance of all post-socialist systems comes out inferior but, again, the failing is not due to the deficiencies of these arrangements but to the doom of the socialist heritage.

The second powerful component of the socialist heritage in Serbia is a sort of a weird phenomenon which in this analysis will be called *hysteresis*. For the purpose of these considerations *hysteresis* could be defined as a phenomenon of a macroeconomic variable not being able to return to the original position after having deviated from it under external pressures or for some other reason. The subject of these reflections is hysteresis in aggregate consumption which had, for a number of several coinciding factors, some of which are policy driven and other exogenous as far as economic policy goes, been augmented markedly above level consistent with resource endowment and productive capacity of the country. The principal reason was the abundant inflow of supplementary resources from abroad made possible and in fact conditioned by the courageous and worldwide acclaimed political break of Yugoslavia from the then powerful block of socialist countries dominated by Soviet Union.

The supplementary inflow of resources was referred to as abundant as it, while oscillating from year to year, reached in certain years no less than 5% of the then used GSP (Gross Social Product). That flow was particularly large in the 1952-1960. period, but continued in some forms in the following years, too. However, when these flows substantially waned after 1960, Yugoslav workers started taking jobs in the developed west European countries – primarily in the then existing West Germany, France and Austria and, somewhat less, in the Scandinavian countries. Such an, at the time unorthodox, export of human capital triggered the continuing guest workers' remittances which substituted for the unilateral transfer from before. Another opulent flow of additional means set in. Then came the

1970's with the flood of euro-dollars all over Europe and with easy and rich options for raising credits, which the country helped herself of in numerous ways and plentiful quantities. The foreign debt crisis developed after 1980's and only then the supplementary resources inflow thinned. This phenomenon was studied and intensely discussed on several occasions (Madžar 1992a, 1992b).

However, despite the volatility of the inflows and reduction of some of them through time, in a long period lasting some three decades the population adjusted its consuming standards to the levels much above what would be possible had the own-resource constraints been operative. True, the rate of savings in those times was very high, but there remained sufficient room for raising consumption above what could be feasible with exclusively domestic spending potential. Raising consumption much above domestically generated income and *especially above income that would be available on the basis of strictly taken domestic resources* – one should not forget that the inflow of additional resources made it possible to use much more fully domestic capacities in the structurally distorted socialist economy – greatly contributed to the singularly insufficient future rates of savings which plague permanently the post-socialist economies in most ex-Yugoslav republics.

This author estimated the rates of domestic savings for the 2000-2012 period and found them to be oscillating around zero with taking negative values in quite a few encompassed years. These were calculated as percentage shares in the GDP of the gross investment minus foreign *trade* deficit. Had depreciation charges been deducted, a horrifying picture would obtain. Begović (2016, pp. 9-10) cites the estimates of the World Bank for the 2001-2015 period resulting in an average savings rate of 4.8%. The difference strikes one as surprising, but is readily explained by the fact that the World Bank came up with the *national* savings rate whereas the formerly mentioned rate had been the rate of *domestic* savings. The difference between the two is equal to the share of the difference of the *foreign trade* deficit and the *balance of payments* deficit in the GDP. This difference in the case of Serbia has been and remains very high since it contains significant factor earnings mostly consisting of the difference between the worker remittances (a large positive quantity) and the interest paid on foreign debt (a much lower negative quantity).

Be it as it may, the inflows to Serbia of incomes *not generated in its economy have been and remain into the foreseeable future quite significant* and substantially contribute, actually condition, extremely low

accumulation rate indicating practical absence of domestic savings. This is a very serious long run constraint on economic development and, more generally, on the overall modernization of the society. It appears as an insurmountable development trap out of which for quite some time the ways out will probably not be identifiable.

It is of some interest to contrast the case of Serbia with the diametrically opposite case of China. The latter had for decades been doomed to unthinkable low consumption standards and when in 1978 the radical turnaround in her institutional order took place, a spectacular process of economic growth began and continues now for some four decades. Income grew extremely rapidly but, due to hysteresis which clearly has acted in the direction opposite to that of Serbia, consumption had *not* been increasing *pari passu* with income. The result is a series of literally enormous rates of accumulation soaring in some years to the unbelievably 50% (Bergsten *et al.* 2011/2009/, p. 150) and persisting at such incredibly high levels despite the severe financial repression through monetary policy, repression which led to negative real interest rates in a considerable number of years (pp. 164-165).

Reverting to Serbia an extremely important element of her institutional reality deserves mentioning. As Pejovich (1998/1995/, pp. 200-2004) explained with admirable clarity, a malignant opportunism has been built into the very structure, into the deep foundations of the self-managed institutional system. Namely, due to the fact that the employees, and especially the elected managers, had extensive management rights but not the property rights, their decision making horizon had been limited and far from the horizon of infinite lengths implied by the very nature of the rights of ownership. Thus, the employees' horizon was determined by the *limited* expected length of stay with the organization, which meant that they had extraordinarily strong incentives to raise as much credit as they could get hold of – with strong motivation to bribe the managers of the banks – and leave the servicing of these debts to their successors getting employment following the current workers' retirement! With such a grave constructive error in the decisively impacting deep foundations of the system, no wonder that the Yugoslav economy stumbled from one financial crisis into another and never reached the state of tolerable financial health. Pejovich deserves much credit indeed for illuminating such a shocking flaw in the construction of the system, the flaw which escaped to many highly reputed analysts.

3.7 *The Backlog of Regional Adversities: The Untoward Consequences of Collectivist Heritage*

The principal proposition argued in this paper is about belated effects of the demised socialist institutional order: the fall in the rate of growth of the leading macroeconomic aggregates, having become strikingly visible with the institutional turnabout towards market and the associated regulating mechanisms, should not and cannot properly be ascribed to the newly introduced institutions and to market as such. Rather they linger on as consequences of the old demised regime. Two adverse (sets of) effects could be discerned here. The *first* one derives from unsustainability of the old system: the growth trends would be broken and the rhythm of development would surely plummet even without the widely advertised institutional shift. As a matter of fact, the spectacular institutional change is not the cause of the flattening of economic trends; the causal relation runs the other way around. Political elites of the ex socialist countries *would certainly not on their own and just like that abandon the system* in which they had been so comfortably placed. They scrapped it because the system exhausted its capacity for further development and even for normal functioning. The reform was *forced* upon the system and had not come out of blue just to undermine it and wipe it out from the world's institutional landscape.

The *second* derives from the legacies of the old arrangements and policies. As it, somewhat unexpectedly, turned out, the adverse workings of the system did not stop with its historical demise, the system disappeared but deep scars left after its demise continue to produce shocks and disturbances. Unexpectedly and maybe even shockingly to the non-professional public and surprisingly even to a significant number of (would be) trained professionals, the location of causal factors is strikingly different from what it is widely held to be. As indicated above, the not so impressive rate of growth and level of other development indicators, registered since the new system came into being, is *not* the result of the functioning of that system but is safely ascribable to the old institutional order, the one which no more exists!

The ultimate proof of any proposition is its correspondence to economic and social realities. The crucial question is whether it fits into the real sequences of events and interdependencies observed before and following the decisive institutional change. It turns out that legacies of the old system flow along several lines, partly crossing and partly coinciding, and yet clearly discernible and undoubtedly different. They are elaborated

in the preceding subsection and in the present section only a few empirical details will be discussed in confirmation of the legacy proposition. The claim is that the socialist system of former Yugoslavia exhibited some typical features of its *genus proximum* of systems deprived of private ownership as the determining component of their institutional base. The absence of clearly specified and legally protected ownership is the key reason because of which it underwent the same ruin laden trajectory ending with inescapable breakdown.

The systems like people can suffer a tragic end due to unlucky series of tragic exogenous shocks. But in this case such an interpretation does not apply: the system faded out gradually, the decline having lasted for decades, and the final causes of destruction came from within. At the time of their demise there had been no wars or similar exogenous destructive shocks to which the ruin of the systems could be ascribed. Alternative and in a way competitive systems survived and some for a certain time even prospered while the socialist systems were undergoing the irreparable ruin.

As for the Yugoslav economic system, it shared defining traits with the family to whose *genus proximum* it belonged. *Firstly*, it was unsustainable, the proof of which is its historic debacle. *Secondly*, just like all other socialist systems, it was not amenable to any meaningful reforms, to any serious modifications worth speaking of. This is the result of a truly peculiar, probably not yet sufficiently studied feature of these revolutionary or forcefully imposed creations (*NB* coercion is involved in both scenarios). The feature is the following: their defining characteristics are, to use a strange word, *extremistically exclusive*, they do not allow pragmatic combining with some other features suggested or urged by the requirements of practice. Socialism is in some sense *fundamentalist* not being tolerable to immixing of any ingredients which themselves are not elements of the same pure creed. Socialism cannot be, at least not in sufficient degree, pragmatically modified while still staying *socialism*.

This is the root cause of another trait shared with all other socialist systems: reforms in these systems were frequent because the problems were frequent and more and more serious, but none of these reforms had been allowed to touch what had been considered as essential to socialism. The reforms have therefore all over been partial and superficial; they were generating disturbances and complications of futile adjustments without solving anything. With fundamental defining components remaining untouchable, the systems stayed in essence *unchanged* which prevented them to gradually and pragmatically evolve into some more efficient and

sustainable options. In other words, the unique way of their serious changing was a form of „revolutionary jump“ and the jump could not have any other shape but the grand and spectacular departure from socialist sanctities. That would have been the only way of getting rid of huge costs and hosts of untoward legacies destined to obstruct development process for an uncertain but certainly long future.

As for Yugoslavia, early signs of the predicaments of the extensive growth appeared quite soon. As early as 1960 the steeply rising trend of the GSP growth, exhibiting a rate of growth of some 8%, broke unexpectedly with the rate of growth plunging to below 6%. Authorities mistook this break as an ephemeral, stochastic deviation and continued planning the rate of growth of industrial production at the earlier high levels (Horvat 1969, p. 26). As the slackened development persisted, the authorities became alarmed and formed a group of experts headed by B. Horvat. They produced the famous *Yellow Book* (Horvat *et al.* 1962) with detailed analysis of various – aggregate and sectoral – components of currently observed movements and with diagnoses of the underlying causes as they saw them.

Two details in connection with this study stand out sharply. The *first* one is the fact that the government and the general public became seriously alarmed having observed the rate of growth of close to 6%; nowadays the authorities in Serbia yearn for a rate of 3% and proudly announce the prospects of realization of such „success“. The unusual drought (2017) affected agriculture and the projection of the rate is scaled down to 2.3%, with serious reservations on the part of the profession about the prospects of achieving even this reduced rate. *Secondly*, no thought whatsoever had been given to the possibilities of this break having been caused by deeper structural causes, to the danger that deceleration might have been predetermined by the nature of the system centered on the extensive development as the basis of the strategy of development. The other neglected component of this complicated nexus was the somewhat reduced inflow of free resources from abroad, sufficient to cause a serious stumbling of the economy which had been doped with supplementary means for some eight years.

The amazing thing is that Horvat was then and remained as long as he lived the best economist in the country; he taught all of us what economics is all about and the landscape of professional expertise would in Serbia even today be incomparably worse had it not been for Horvat's admirable educational work. With the benefits of hindsight, one can easily conclude that the constraints of knowledge and even of educational

processes of further learning are much, much more serious than what all of us would be willing and able to admit at that time. Horvat himself has persevered in insisting on the standard of policy performance which even from this retrospective seem unattainable with his most recent writings (e.g. 2002) demonstrating formidable distance between realities of economic policy and his normative ideals. Excessively large, veritably vast distances are realizable only with comparable obstacles and difficulties: And with commensurate taking of time. *Natura non facit salta*.

Later developments offered ample opportunities for diagnosing the untoward tendencies in economic development. Thus they offered numerous possibilities for professional critics of economic policies and commentators of lacking institutional advancements. Horvat again was in the forefront of such critical analyses. As far as Serbia is taken as the standard of reference and as far as the level of expertise in and around federal authorities is concerned, Horvat was a man of extraordinary knowledge and heretofore unseen analytical potentialities. He was also a man of impeccable integrity and of incredible courage. A long series of his writings, with some of them assembled in (1984) and some others re-edited in (2001), illuminated many aspects of then led economic policies and clarified with astonishing originality connections between institutional changes and policy moves, on the one, and changes in development trends, on the other hand. Those contributions were analytically sharpened and theoretically clarified, while making fascinating reading, to such an extent that one could safely state that his popular writings on institutions and policies have been equally valuable and influential as his purely scientific contributions which have brought to him wide international recognition.

Yet, again with the benefits of hindsight, one could persuasively conclude that he had been overestimating the availability of knowledge and underestimating the difficulties and constraints on the rapidity and scope of its expansion. It is in the nature of things that the limitations of knowledge can only be seen *ex post*, after additional knowledge had been accumulated and thus opened new vistas on the reaches of scientific endeavors. Much of what could have been useful for understanding the relationships between institutional peculiarities and macroeconomic movements had simply been lacking and the amazing thing is that occasionally with limited and even mistaken knowledge useful policies can be conducted and considerable successes obtained.

In fact, many successful policies had been realized on the basis of concepts and insights which later proved to be outright mistaken. As Popper

frequently emphasized, any scientific „truth“ is temporary, until something different or even contrary is proven. Taking into account how many hypotheses and theories have been refuted, a good deal of various policies conducted in the long past, have had false and subsequently refuted theories as their scientific base. It looks that even tentative policies, based on subsequently falsified theories, can ultimately be useful from a reasonably conceived social point of view. That will be the case if they serve as means of mobilizing social actions which otherwise would not have happened and, along with that, as cognitive devices for coordinating decisions in the absence of other ways of securing coordination. After all, the geocentric astrophysical theory had for centuries served successfully as a fundamental scheme for long and complicated maritime voyages.

Returning to Horvat, the unique and unforgettable man, nobody, not even he, could be blamed for lacking insights which only much later became available. But he provided many enlightening pieces of research, produced a more than respectable educational impact and acted as a steady source of pressure on the government and its public service to approach policy issues more seriously and to improve more effectively the analytical apparatus on which the policies had been based. After all, with this or that theory, later maybe refuted or just partly modified, there is always room for improving policies and minimizing failings. It is well known that policy makers have their own preference functions rarely coinciding with, no matter how postulated, interests of the society at large; the „political arithmetic“ diverges widely from economic calculation aimed at hitting *social interests*, whatever the italicized word might mean (Madžar 2011, p. 431). Exerting pressure, which Horvat did with admirable lucidity and extraordinary courage, pushes the government and its public service towards more productive activity and reduces the gap between what they find particularistically profitable and what is more desirable or less damaging for the rest of the society.

Coming back to the defining theme of this paper, the numerous critical writings of B. Horvat pointing to the persistently weakening performance of development policies, represent a vivid illustration and even an analytical illumination of the falling effectiveness of strategies of extensive growth and as such are unusually valuable irrespective of the fact that the time of his most intense engagement had not been ripe for fuller understanding of ultimate unsustainability of then implemented growth. It took considerable time to understand the limited scope of development primarily based on physical mobilization of production factors, without

ability and perhaps willingness to affect the changes needed for lasting and unyielding generation of technical progress.

3. *Summing Up*

After the preceding lengthy elaboration, the main points of this text could be summarized shortly. A strange and not easily explicable coincidence of unusually combined phenomena is witnessed in post-socialist times. The broken down and abandoned socialist system is replaced with the fundamentally different market based system which according to precepts of the theory represents an incomparably more efficient institutional creation. However, there are imposing pieces of empirical evidence strikingly inconsistent with theoretical postulates and corresponding derivations. In some, not so short, subperiods of socialist development, based on the strategies of extensive growth, the rates of growth and other indicators of performance appear markedly superior in the socialist order as opposed to the constellation of post-socialist arrangements. This is a very intriguing and rather disturbing finding. The general public and even a significant part of professional circles are inclined to conclude on the basis of this mismatch that the demised socialist system is more efficient and endowed with greater development potential than the post-socialist market based order which arrived after the big bang of the breakdown of the socialist order.

The purpose of this paper is to show that the just adduced reasoning is incorrect. To begin with, the breakdown of the system is the most powerful argument against any claims about its efficiency. The structural disproportions and hopeless retardation of development is not the result of the newly inaugurated decentralized, private property based order but, quite to the contrary, the grand institutional change came in the aftermath and as a consequence of the major disruptions and the blockades of the more or less collectively steered real system. The irreparable disorder with irreversible blockade of the complex array of its macroeconomic aggregates made it imperative to acknowledge the debacle of the system and to turn to fundamentally contrasting alternative. Institutional change would not have happened had not the old socialist system led to an impasse out of which no way out of the collectivist trap could be found while preserving socialist sacred cows. The major reforms were not invented and freely engineered by post-socialist societies; they were forced upon them by persistent and protracted in time economic crises with no remedies within collectivist institutions.

The systems proved to have been burdened with a fatal failure. The deadly deficiency is their unsustainability. The drastic declines in the rates of growth and other development indicators were built into the very structure of these systems, unsustainability means that they had to enter the irresolvable crises and be replaced with fundamentally different institutional constellations or else undergo even more spectacular catastrophe, with inestimable social costs and associated losses. In other words, the drastic fall in the rhythm of development was, because of unsustainability, predetermined and inevitable within the framework of the extant socialist system and as such cannot be meaningfully ascribed to the post-socialist market based order.

Moreover, the collectivist system of the socialist past has its destructive legacies. Those legacies are the determinants of the considerable difficulties in the functioning of the post-socialist systems and, contrary to popular perception, the causes of slow growth and unfavorable development trends of other macroeconomic indicators are located far outside of the present institutional arrangements. However it may sound paradoxically, they act destructively as the leftovers of the old system pushed for good out of the existence. Deep roots of the past are responsible even for the current economic policies as they reflect the constellations of political power created in the bygone socialist order. They are especially strong when acting in combination with living remnants of the past social psychology with so called *care for man* as one of the most pernicious: citizens and voters are for most of the times ready to hold government responsible and to blame it for the difficulties which they themselves should be obliged and able to resolve. Legacies of the old system produced a multitude of the inhibiting influences and constraining effects quite independently of the structural traits and functional properties of the new system.

In favor of the presented argumentation referring to the somewhat unexpected location of the growth constraining impulses could perhaps be adduced an *argumentum ad hominem*. The twentieth congress of the Communist Party of the Soviet Union (1956) revealed atrocities and unheard of abominations of the Soviet System. *Confitens reus optimus testis*. Being a member of the same family, the Yugoslav system with which Serbia has to come to grips today, could not have been *fundamentally* better. Taking into account huge costs, including those inestimable in terms of human lives, such systems could not have been efficient and could not have growth and even survival potential. But if they did have the potential to survive, that would have been a pity; their survival would come to the grave detriment of the respective societies. On any reasonable set of value

judgments, the costs implied and generated by such systems are too big in relation to the benefits – especially have to be pointed out again those in terms of human lives – for them to be judged as rational or desirable on any count. As for benefits, it looks as if majority of the economics profession, as well as of the general public, would agree with the hypothetical judgment that Russians and other ex-Soviet peoples have a lower living standard today than they would have had had the *Great October Revolution* not happened at all. Russian Federation is according to some considerations a less developed country, precariously depending on the price of the energy carrying raw materials and in some important aspects resembling Saudi Arabia. The lack of sufficiently vigorous technical progress appears to be the principal message of the general diagnosis of its economic position.

The bursting of socialist revolutions looks irresistibly as a colossal civilizational crash. It imposed devastating damages and abominable victims upon many societies and caused costs and losses that would never be recuperated. It left behind itself deep scars with many horrifying implications for the economic present of the afflicted countries and certainly for an indeterminable but evidently long future. Individuals and societies will have to live long with the consequences of their damaging workings.

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