

Prof. Dr Sreten Sokić

SERBIA IN CAPITAL PROCESSES

Part 1

WORLD CHALLENGES AND ECONOMIC PRINCIPLES

Belgrade, 2007

CONTENTS

PREFACE	1
Unit 1	
BASICS OF KNOWLEDGE ON CAPITAL IN SERBIA	5
<i>Chapter 1</i>	
Subject Matter Basics of Scientific Knowledge on Position of Serbia in Capital Processes	9
<i>Chapter 2</i>	
Ambiguity of the Research Topic in Serbia – Motives and Results	15
1. Toward the economy of our reality in contemporary processes	17
<i>Chapter 3</i>	
Theoretical-Categorical Frames	21
1. Economy, the basis of economic order and reform	25
2. Economy, basic fields – material activity and economic order	27
3. Economic order	29
4. Economic order – evolution of the subject matter in Serbia	31
5. Economic order, regularity of changes and economy of capital	36
6. Economic laws and essence of economy of capital	38
7. Economy and capital processes – various definitions of economic science	41
8. What is economy of transition?	44
<i>Chapter 4</i>	
Economic and Social Processes in Serbia and the Gap between Normative and Actual	47
1. Kosovo and Metohia – normative and actual	59
<i>Chapter 5</i>	
Economic Eeforms – a Critical Review	61
Unit 2	
CAPITAL PROCESSES IN THE BEGINNING OF OUR CENTURY Methods of Findings and Essays about Them	67
<i>Chapter 6</i>	

Essays on Capital-Based Economic Processes – Institutions and Governance	73
1. Capital and historical forms of failure in Serbia	74
2. Interlacement of economy and politics	75
3. Government increases its economic power and political forces of influence	76
4. Hidden forms of economy and capital’s potency	78
5. Theoretical achievements disturb political governance	78
<i>Chapter 7</i>	
Scientific Method of Knowledge on Capital and its Intentions	83
1. Methodological frames of economic science and science of economic system	84
1.1. Possible and realistic goals of scientific-research enterprise	86
1.2. Diversity of scientific approaches and application of adequate learning processes and economic forms	88
2. Theoretical abstractions and economic reality	90
2.1. Study of existing economic forms	91
2.2. Application of appropriate methods of analysis of economic phenomena, processes and relations, with “critical empirical consideration of reality”	92
2.3. Scientific explanation of crash of practical economic capital processes, causes and consequences	93
2.4. Explanation of “post-socialist” characteristics of economic order and economic phenomena	93
3. Global economic categories	
3.1. Marx’s synthesis of knowledge on global economic categories	95
3.2. Contemporary practical shapes, forms and methods of appearance	96
3.3. Practical shapes and necessary inquiries on this issue	99
<i>Chapter 8</i>	
Capital and Contemporary Economic Flows	103
1. Objective “circumstances” of capital – contemporariness, but historical background as well	105
2. Capital in contemporary value relations and democratic processes	106
3. Contemporary capital-based economic processes	110
3.1. Serbia in contemporary capital flows	114

Chapter 9

Neoliberalism and Neomonetarism

Economic Thought and Practice	121
1. Backgrounds of changes of contemporary civilization	122
1.1. What to research and explain scientifically	123
1.2. Alternatives to contemporary economic science and neoliberalism	128
1.3. Theoretical divergences of money and neoliberalism	140
2. Neoliberalism as the basis of contemporary economic regulations and flows	145
2.1. Unsuccessful attempt of constituting new neoliberal economy in Serbia	149
2.2. Neoliberal concept of the National Bank of Serbia	150
2.3. Other neoliberal processes and tendencies – a part of indications of inadequate changes in Serbia	154
3. Science of monetary system in entirety of economic understanding in Serbia	168

Unit 3

TENDENCIES OF CONTEMPORARY EPOCH AND CAPITAL PROCESSES	173
---	------------

Chapter 10

Universal Changes of Contemporary Civilization	177
1. Contemporary changes – foundations of overall civilization development	180
2. Epochal changes – basics of transformation and development	183
2.1. Development of knowledge and science	185
2.2. Science and knowledge in function of development	186
2.3. Productive application of results of science and scientific-research work	191
2.4. Broad performance of automation	196
2.5. Computers and character of automation and heavy machinery	197
3. Improvement of work process	204
4. Contemporary changes in ownership structure	208

Chapter 11

Multinational Companies – World Flows of Capital	213
1. Multinational companies – economic, trading and financial power (characteristics of transitory economy and	

globalism)	215
1.1. Attempts of definition	215
1.2. Creation and development	217
1.3. Tendency of economic and profitable force toward contemporariness	218
2. Contemporary shapes of international capital movements	221
2.1. Multinational companies as a shape of international capital movement	222
2.2. Financial internationalization	234
<i>Chapter 12</i>	
Processes of Globalization of World Economy and Realistic Position of Serbia	239
1. Do globalization processes embody as unlimited prosperity of capital	240
2. Objective global flow – economic processes and political masters	243
3. Influences of globalization of world economy, expansion of activities of the European Union and the World Trade Organization on development processes in “post-socialist” and other underdeveloped countries	247
4. Globalization on the way of misunderstanding and misuse	256
5. Geostrategic side roads	258
6. European Union – experiences of membership of new “post-socialist” transition countries	260
6.1. Origin – a short reminding	260
6.2. New members and new image of the European Union	261
7. Serbia – toward further reform transformations and contemporary world market, tendencies of contemporary epoch and capital processes	264

Unit 4

NEW TIMES AND CAPITAL OF PROGRESSIVE INTENTIONS

Chapter 13

Economy in Contemporary Organizational Shapes of Goods Production and Market Institutions	273
1. Prices, accumulation and development	275
1.1. Regularity of price – real basis of contemporary economy and accumulation	278
1.2. Economists and evolution of price contents	279

1.3. Price – complex economic relations and objective indicator of essential generators of inflation	281
2. On inflation as synthetic failure of delay of changes, systemic and reform phenomenon in Serbia	285
3. Economic contents of price – objective indicator and measure of reforms success	290
4. Crisis of inflatory economy and measures of economic policy	293
5. Crash of policy of inflatory economy – inevitability of systemic, institutional, structural and developmental transformation	296
6. World globalization of economy and contemporariness of inflation	297

Chapter 14

Intensive Social Accumulation, the Future of Modern Appearance Modes of Capital and Direct Anti-Inflatory Tendency **299**

1. Accumulation and contemporary capital market	301
2. Intensive accumulation – affirmation of investing principles of capital	302
3. Capital market in function of usefulness and development	304
4. National development chance of Serbia	306
4.1. Our way in combination with contemporary trends, or joining	307

Chapter 15

State in Function of Capital and Market Certainty **311**

1. Truth and dilemmas in building of state economic functions	312
2. Public financing – expansion of state economic functions	315
2.1. Necessity for changes of economic picture of the world and role of public consumption	317
3. Budget as a measure of governmental ambition and expansion of economic role of state	319
4. Contemporary state building in function of capital of progressive intentions	323

Unit 5

ECONOMIC POLICY

- Role in Economy of Contemporariness and Practice of Serbia -	329
---	------------

Chapter 16

Economic Policy as a Doctrine and Contemporary Action of Social Subjects	333
1. Terminological definition of economic policy.	
Elements of definition and economic function	335
1.1. Terminological definition	336
1.2. Measuring of results and effects of application of economic policy	345
2. Mutual influence of essence of economy and economic policy. Qualitative conditionality.	352
2.1. Politics and economic policy	253
2.2. Economic policy and economic system	358
2.3. Economic policy and economic order	359
2.4. Economic policy and development policy	361
2.5. Economic policy and economic development	362
2.6. Contemporary tendencies in development of microeconomy, macroeconomy and mathematical-empirical economy and their influence on modernity of economic policy	364

Chapter 17

Essays on Problems Resulting from Absence of Economic Policy of Progress and Development in Serbia	367
1. Our economic policy – from ambitions of an all-mighty giant to dimensions of Lilliputians	369
1.1. Long-term political assessment of results of economic policy	372
1.2. Economic policy as a means of struggle for political dominance	379
2. State “economic policy” in contemporariness of Serbia	386
3. Consequences of budgetary choices to economic policy	389
4. Attempts of economic omnipotence of budgetary economic policy	392
5. Establishment of our foreign economic policy on the lack of knowledge on economic and political world processes	395
5.1. Our foreign trade policy – big chance for omnipotence of wrong economic policy	400
6. Economic policy and “transitional depression”	404
7. Economic policy – International Monetary Fund and role of other international economic institutions	407
7.1. The crucial year is 2000	408

7.2. Actual problems as continuation of already accumulated ones	411
8. Unavoidable way toward further social tensions	412
9. Serbia and constitutional establishment of new economic policy	414

Chapter 18

**Discussion about Grey Economy
as a Failure of Economic Policy 419**

1. Character of contemporary grey economy	420
2. Grey economy – mode of appearance of contemporary economic picture of the world	421
2.1. Grey economy – contemporary companion of all modes of capital	423
3. Distribution of grey economy in contemporariness	428
3.1. International scale	430
3.2. Developed countries	432
3.3. Transition of “post-socialism” and expansion of grey economy	434
4. Our country in grey economy	449
4.1. Our privatization in grey economy impulses	455
4.2. Measures for suppressing grey economy	458

Unit 6

**ECONOMY OF CAPITAL AND DEMOCRATIC
INSTITUTIONALIZATION 467**

Chapter 19

Economy, Democracy, Local Democracy 471

1. Contemporary capital and democratization processes	471
2. Serbia and contemporary democratic flows in function of economic and social progress	475
2.1. Prolegomena of reality – depravities and contradictions	476
3. There is no political democracy without the economic one	479
4. There is no local self-governance without economic and financial independence	483
5. Serbia – (non)unity of local democracy and macrodemocracy	486

Chapter 20

**Entrepreneurial-Managerial Economy, Condition and Future
of Economy of Capital 489**

1. Specificity of management as science, theory, knowledge,	
---	--

skills and practice	491
1.1. What is management	494
1.2. Management in strategic planning	496
1.3. Management and strategic development planning	498
2. Management in economic reforms	499
2.1. Bureaucratic philosophy and opportunism of managers against transitional changes	501
3. Managers of changes and changes of managers	503
<i>Chapter 21</i>	
Economy, Capital, Human Capital	505
1. Human capital – contemporariness of scientific thought and practice	506
1.1. Theoretical foundation of reform of labour market in function of human capital	509
1.2. Contemporary economic thought – labour and labour market	516
1.3. Labour market, economic growth and development	519
1.4. International capital flows and labour market	521
2. Economic processes, economic logic of capital and reform of labour market	523
3. Unemployment crisis in Serbia and ways to overcome it	526
3.1. Statistical but not actual successes since the year 2000	528
3.2. Economic policy, poverty and unemployment	530
4. Unemployment and necessity of reform of labour market in Serbia	534
4.1. Actual tendencies on labour market in Serbia – directions of reforms	536
4.2. Tendencies of unemployment and necessity of projecting the labour market	537
4.3. Anarchy of unemployment in Serbia	540
4.4. International directing	548
4.5. How to exit from unemployment crisis	549

Unit 7

SERBIA IN CONTEMPORARITY AND INEVITABLE FOREIGN CAPITAL FLOWS

555

Chapter 22

Serbia and Capital in Form of Foreign Direct Investments

561

1. Role of foreign direct investments in character of

economic and political reforms	563
2. Investment funds in privatization capital in Serbia	573
2.1. Short history and actual information	574
2.2. Investment funds in countries of “post-socialist transition”	576
2.3. Our affairs – Serbian style	578
2.4. Incentive for investments to Serbia and perspectives of investment funds	580
2.5. Let us not forget directives of the White Book and requirements of the EU Stabilisation and Association Agreement	582

Chapter 23

Necessity for and Specificities of Relations with World Capital Flows	585
1. Era of destroying economic ties without establishing quality new ones	585
2. Economic necessity for international exchange and integration of our country into world market	589
3. Quantitative indicators of international exchange	595
4. Foreign trade deficit – synthetic indicator of absence of capital-based economic reforms	600
5. Non-goods traffic	605
6. Conditionality of economy of capital by debts to foreign countries, international financial institutions and on all other basis	606

Chapter 24

Economy of Capital and Cooperation of Balkan Countries	615
1. Important and undeniable trading possibilities	617
2. Conditionality by specificities of world trading and economic flows	618
3. Importance of strategy of foreign economic policy, principles and practice	619
4. Serbia, the Balkans originalities and trading cooperation	623
5. Possibilities and necessities	626
6. CEFTA 2006 – new possibilities or...	

PREFACE

Similar to other countries, the economy of Serbia is developing in a vortex of many circumstances and social processes, some of which are its own, whereas some belong to world realities and flows.

To research and examine the contemporary “walk to future” of Serbia, in accordance with actual possibilities for its involvement into the entity of capital and of modern democracy, is indeed a complex and scientifically challenging task. It has characteristics of a relevant scientific conditionality: to research – by adequate scientific methods – decisive facts, necessary developing processes, tendencies, and abundance of invisible, almost imaginary. To offer a valid assessment of economic “truth”, financial capabilities and realistic ways for building our economic-social reality toward a modern society and relations prevailing therein. In this cognitive process, research procedures and scientific verification of the results are decisive as well. Our research activities showed that experiences from the Serbia’s past and economic facts about it did not “pass” scientific criticism and comparative analysis.

Another important motive of this work is a relevant response to a scientific challenge: on what principles to “build” a modern approach to research of economic processes of capital in Serbia, in their historical flow, contemporariness and future?

In this very complex task, we relied upon two decisive sources: a) our several-decade results of scientific-research activities, plenteousness of other facts and scientific truths, and b) cognitive contents of reality and future of Serbia in world flows of capital and economy. Hence for long the working title of these activities was “Capital and economic processes”.

Before the reader here is a work which contains a synthesis of results of scientific processing of what is crucial – essential when speaking about Serbia in processes of capital. Here is also the elaboration of system of hypotheses and essence of research activity which marks our civilization, democratic, economic epoch. Since this is about the evolution of modern world, we studied the most important entities, interconnections, conditionality and numerous contradictions. We tried to be “concise, persuasive and lucid”.

We recognized progressive intentions of our epoch, which various forms and shapes, “inevabilities” and “intentness” spread, as we, the Serbs, would say, as a necklace of pearls. In different times, on all continents, on all meridians.

Serbia, South-East Europe, “post-socialism”, Europe, international economic processes and capital flows – all of them are analytically presented in this book, to help a reader, a researcher, everybody who catch sight of some global secrets, to understand the time and flows behind us and to realize the facts which no one can “pass by” in future. By using the “sharpest” expressions, we tried to avoid any idealism of accelerated virtualities of the present (both ours and the world ones).

In the capital processes in the past and in the beginning of this century, Serbia was, and still is, a large blanc spot. Particularly from the aspect of its capital, the economic history of Serbia was not easy at all. Quite the opposite. Even to-day it remained permeated with absence of relevant accessions. Certain phases of the analyzed economic reality in particular. There is an abundance of scientific and analytic works which brilliantly and “in-depth scientifically” presented certain periods. However, the essential link of key segments, its potentials, all worlds capital flows of that time, is missing. The assessment of (un)success of certain phases of development in the past centuries and in the first years of this one.

The book which I offer to the reader does not speak about the past. Furthermore, it is against the mystification which a conservative and a reactioner summons “from the past”. Therefore in the contents one should recognize the force of inevitability, the force of future... and also what is developmental, economic, legal... which are signified facts of progress. We proved, I hope, that what is formally new or what constitutes the world of reality **is not**, by itself, also the sense of the future world.

In the world packed with accumulated contradictions and real problems, the actual economic situation of Serbia is a starting moment, a condition for assessments, for breaking down the possibilities, it is that little link to realities of the most modern economic processes. There are no in advance determined views or possibilities dependable on qualitative variance of our potentials.

In considering the prevailing economic processes, we noted that the presented facts and qualitative indicators about Serbia (as well as about the ruling political polygon for measurement of everything) in the plenty of scientific works, neglected dependences of all sorts (historical, actual contextual, international, etc) with flows of contemporariness of capital. These errors are not only the ones based on scientific rules, research and analyses, but also those that lie in the sphere of the actual policy towards Serbia (and in it).

In these volumes, it was indeed the easiest to prove the ruling forces of Serbia's sinking, not only from the aspect of our capital, not only recognizing the complex flows of capital in Serbia's past, not only under the “given wings” of economic policy which subordinates the actual reality to general principles of world rule. But, with realities of “conditions of living and capital” which, independently of the persistent force of confrontation, lead to bleeding the country's resources white by overall action of governing forces, same as in other examples of greedy intentions for personal gain. Unbelievable in world civilization.

It is difficult to disappoint all those who present the ruling situation of our reality as the only salvage, or use it in “their own defence” as the galactic living principles. Critical assessment of that (and such) reality and interpreted possibilities are nevertheless present in this book. They do not dominate the contents, but they were unavoidable. As a call to mind and self-waking.

The promised land becomes a discretionary property, without measuring the performances of all those who had its destiny at their disposal and who are now its lords. From this aspect, the future of Serbia is extremely uncertain. Subjective impressions give incentives to possibilities of “unmeasured progressive dimensions” and in the same time direct us to eager and economic (not only from the aspect of capital) possibilities for crash of Serbia.

Explanation of these processes would probably be incomplete without general characteristics of centurial condition, presence and (maybe) future. These are the most important defects of knowledge on reality in flows of capital and its intentions. These tendencies were packed (and still they are) with non-economic processes as termites that “create their history themselves”.

From that aspect, it was important to consider in **the first volume** the characteristics of contemporary changes from the aspect of modernity of capital, which understand a serial of theoretical reviews related to actual economic processes in Serbia.

Second and third volumes are created as an empirical base and normative and ideological processes of our misconceptions. As an “expensively paid experience” in past, but also as our incapability to view the flows of capital and Serbia therein.

This (sort of) written triptych represents the economic developmental picture of Serbia.

The contents of the book reflects all the dramatics of the economy of capital in Serbia. But also how the capital itself became the force of progress toward contemporariness. Our citizens understood that. Science did not. Why?

The essence of these and many other replies can be seen from this book. But first of all, this book offers a scientific assessment of the reality and of new chances of Serbia in processes of capital, progress, development, future.

Economic processes of capital are historical legacy of Serbia and its centurial and future chance.

This is what this book is devoted to.

Prof. Dr Sreten Sokić

Belgrade, November 14th, 2007