

PRIORITY OF THE ANTI-CRISIS ECONOMIC POLICY BASED ON INNOVATIVE-INSTITUTIONAL CHANGES – THE CASE OF THE BALKAN REGION AND MONTENEGRO

The combination of global and local factors gives the modern financial and economic crisis specificity. The aim of this paper is to point to the urgent need of the consistent anti-crisis economic policy creation, which must take into account local and global crisis and risks factors. This article discusses the influence of real institutionalization on the efficiency of the economic policy. It points out at a primary significance of institutionalization on economic policy. It departs from the hypotheses that the creation efficient anti-crisis economic policy requires a correct and timely identification of the problems and crisis process, defining the necessary measures and creating a development approach, which should be based on innovative-institutional modeling.

Key words: *Anti-crisis Economic Policy, Innovations, Institutions, Economic Growth and Development, Transition Economies.*

1. Introduction

Global economics trends in 2008 and the 2009 have been characterized by Recession. The entire Balkan region including Montenegro shares the same destiny, since global economic distortions, caused by financial crisis, spread like dominoes on the real sector and conditioned the biggest fall of economic activities in the last few decades (M. Drašković, 2009, p. 128).

Most of the Balkan countries are characterized by post-socialist transitional economic systems with deep problems, deformations, and disproportions, which have been deepened and complicated even more by global economic crisis. These consequences are results of erroneous economic policies and nonexistence of consistent developmental strategy and they also represent the focus of threatening crisis. Certain decision makers of economic policies, in the midst of unprecedented state interventions, are glorifying neoliberalism. They are forgetting that significant donations from abroad, direct foreign investments and loans are not the result of neoliberal economic successes but of a concrete politics of the West towards the region (V. Drašković 2008a, p. 5).

This article is trying to show the ruinedness of hitherto disinvestment and anti-institutional economic politics of post-socialist Balkan countries and wishfulness for applying anti-crisis economic politics based on real innovative-institutional elements.

2. Disinvestment and anti-institutional economic policy

Economic development of post-socialist countries of the Balkan region is based on permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neoliberal recipes of macroeconomic politics. All of this resulted in long-term destabilization of economic systems through disinvestments and spilling over of positive effects in spending instead of production.

Institutional innovations are, when it comes to timing, structure, quality, quantity and functionality, undeveloped compared to other transitional changes, instead of being their foundation, stimulant and a guarantee. There was a big lap between formally established economic institutes from foreign economic policies and economic behavior in practice, which was far from standard norms. A *strategic significance* of practical institutional innovations was disregarded as well as their *priority role* compared to economic politics. Vulgarized and reduced individualism (of the privileged) became very fast a foundation of formal *institutional monism* as theoretic and ideological basis for neoliberal economic politics (V. Drašković, M. Drašković, 2009, p. 25).

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

A theoretic approach implies state regulation of economic policy measures in all cases of inefficiency of market regulations, when economic growth and sustainable economic development are endangered. Since this type of interventions did not happen in the last two decades, the economic policy in that period cannot be called, at first glance, crisis policy. However, the practice shows something different: complicating of economic problems, erosion of state property, drastic social stratification and pauperization of citizens, high unemployment and fictive employment, flourishing of black and grey market, erosion of trade and industry and so on. A recombined regime was created.

2.1. Anti-crisis economic policy based on institutional innovations

Even before the global economic crisis, the economic policy of small and less developed post-socialist countries refracted in the prism of different shapes of economic assistance, direct foreign investments, creation of conditions for Euro-Atlantic integrations and for foreign trade relations in which import component dominated. Overcoming crisis and propitiating of its consequences depends on the right choice of anti-crisis measures of economic policy, which have to be directed towards overcoming of limitations of economic growth and development (V. Drašković, 2007, p. 85).

It is impossible to unify the list of mentioned measures, which is different from country to country and has different priorities that depend on the level of a reached economic development, specificities of certain industries, indicators, consequences and different level of crisis of a certain economy. Rational anti-crisis economic policy has to be based on:

- a) consistent developmental strategy,
- b) implementation of defensive measures which will, as a priority, take into consideration the so far mistakes, ecologic limitations and social requirements,
- c) maximal support to civilization innovations in the area of technology, organization, regulatory mechanisms, political, economic and social relations, saving and rational allocation of resources,
- d) modernization of state regulations, as the main institutional innovation,
- e) development of human resources and
- f) change in the way of thinking and behaving.

Institutional innovations imply civilization norms, placing economic behavior in realistic, moral, human and institutionalized frameworks, creation of competitive economic policy, which will honestly (and not rhetorically) favor healthy market competition and will take into consideration a given objective developmental frameworks and numerous market limitations. All of it without mythology, ideology, dogmatism and interest related misuses. Freedom of choice and free market – yes, but at own risk and money, within the limits of moral criteria, state responsibility, rational behavior, institutional standards, protected and well specified property rights!

Only institutional innovations can activate missing control and institutional mechanisms, rule of law, economic freedoms and efficient instruments of economic policy.

3. Crisis factors of Montenegrin economy

In the last two decades, Montenegrin economy went through a difficult developmental period: from deep transitional recession, through euphoric economic “boom” based on foreign assistance and virtualization of certain economic sectors (real estate markets, prices of shares at stock market) to another crisis affected by both global and local factors. How come an “*attractive investment and tourist destination*” turned into a crisis and risky one in such a short period of time?

The period of transitional recession was marked by rupture of economic structures and infrastructure and adjusting to different types of assistance from abroad. The period of pseudo economic boom happened in the period of huge direct foreign investments, which served for filling in the state budget, but in most cases it was a process of disinvestment (investing in the real estate and in spending). Investments in production were insignificant. Development of institutional environment did not happen; economic policy was passive, unselective and anti-innovative.

If we consider goals of thus far economic policy through the prism of integrations in the European Union, we can notice much bigger institutional and developmental disproportions than complementarities and convergences. The existence of Euro as the currency which is too strong for Montenegrin circumstances, the signed institutional arrangements and fast harmonization of legal regulations represents more a symbolic than valid framework for united European environment. It is known that fulfilling of Copenhagen criteria depends before all on the real formation of qualitative political, democratic and economic institutes.

The influence of global crisis illustrated very fast the illusority of economic growth based on inconsistent economic policy. One cannot talk about economic development since structural and institutional changes were minor and short-term economic growth was not reached even in the midterm. The first six months of 2009 marked, after many years, a decrease of economic activities for 3,5%; the budget deficit reappeared and it amounts to 7,9 mil. € (0,2% GDP); rebalance of the budget was also done and according to it, source revenues decreased for 212,36 mil € at 6 % GDP, the extreme borrowing amounting to more than 125 mil€ is needed; public debt increased significantly; inflation increased for 8%; deposits of industry and banks decreased significantly; financial insolvency is considerably endangering economic flows; stock exchange turnover decreased drastically for cca 133 mil. €, followed by a huge decrease of stock exchange indexes; foreign debt reached the level of 550,7 mil€ (15,6% of estimated GDP), negative balance of the current account increased from last year’s 1.005 mil.€ (cca 30% GDP) for additional 189 mil.€.

There are no new sources of growth and what is wanted is “*at least one big investment*”, which would allegedly resolve all Montenegrin economic problems: “*Successful market capitalization of the Electric Power Company of Montenegro*”¹, *good tourist season and valorization of launched tenders in the area of tourism are factors which could significantly influence economic growth*” (Report of the main economist of the Central Bank of Montenegro). In a discussed unfavorable economic and social situation, there came the strike of the global crisis, which put an end to the sources of economic growth on which the economic policy was based: the price of aluminum has drastically fallen at world markets (from 3300 € per ton to 1629 €) and this was a dominant Montenegrin export product; the assistance ceased long ago (with elimination of reasons for which it was given); tourism is also declining influenced by economic crisis and numerous other factors; the construction sector is marking a collapse as well as market prices of already constructed and initiated real estates. Risks are increasing as well as the price of capital, which is almost nonexistent. Everyone is expecting a rescue and consoling themselves: we are a small country, it will be easier to overcome the crisis. As if this was only the impact of global economic crisis and as if there is no reproduction of the local crisis, without which the global one could perhaps be minimized in an institutionalized environment with well planned economic policy.

The global economic crisis was saluted with no discomfort and with a conviction that it will go round Montenegro since it is a small country. The preference for monistic neoliberal forcing of market institutes, which already showed as unproductive. Such degenerative institutional environment has a small chance to converge towards some economic successful institutional model. Apart from that, the economic reality is overburdened by weak protection of property rights and investors, shortfalls in the work of state administration, pronounced existence of corruption and inefficient struggle against it, different regulatory limitations, insufficient rule of law and similar. The question of economic freedoms is problematic in conditions of significant unemployment, fictive employment and low living standards, on one side, and relatively high prices, on the other (V. Drašković, 2008, p. 6).

New developmental strategy has to take into consideration its own specifics but also unalternativity of exemplar innovative-institutional models in the region and the world. Specific characteristics of institutes are not their different coloring, form and political orientation, but quality and efficiency.

Review of official governmental documents relating to economic policy in the last years does not show existence of risk analysis, without which developmental plans of economy seem gratuitous. The crisis threw the light on all weaknesses of economic policy, not only in the domain of risk, but also in mercantilistic-neoliberal orientation related to sale of key economic capacities.

Opinions of local analysts can be subjective. Thereafter, we are quoting the latest report of the USAID (newspaper „Vijesti“, 29.07.2009, p. 9), which emphasizes numerous deformations of economic policy makers in Montenegro: poor control and monitoring of the work of the executive power, weak institutions of the government, limited political competition and broad intertwining of political and economic elite (Compare with: Acemoglu, D. et al. 2004), limited publicity of the work of the government, poor implementation of the law, limited access to information, widespread use of personal

¹The Government confirmed that an Italian offer for market capitalization of the Electric Power Company of Montenegro amounting to cca 457 mil.€ was accepted and this amount makes cca 10% GDP.

connections, nepotism and favoritism, corruption as an activity for great gain with little risk, huge conflicts of interests, rigidity in politics and governing.

Package of measures of the Government of Montenegro, which will be implemented with the aim to lessen negative effects of global economic crisis comprises:

- a) strengthening investments in the infrastructure and support to development of private sector,
- b) decrease of ongoing and unproductive budgetary spending,
- c) support to citizens and economy by securing additional solvency and
- d) socio-economic measures.

4. Conclusion

„*Economic miracle*“ of Montenegrin economy and closer Balkan region was dismantled by the first more serious wave of the global economic crisis together with long-term negative local economic currents. The crisis according to its so far manifestations is surpassing ordinary cyclic oscillations and it clearly accentuates weaknesses of the economy. Changes for dealing with the crisis have to be sought, apart from more work, order and discipline, in institutional innovations and the area of economy of knowledge.

Operational anti-crisis support measures to economies in the region must be combined with development of consistent, systemic developmental strategy, which will be the basis for adoption of innovative developmental model founded on creation of a stable institutional environment and accelerated adoption of economy of knowledge. These are the conditions of all other conditions.

It is understood that there is a stimulation of internal demand, securing allocation of capital in priority areas, substitution of import as maximally as possible and genuine stimulation for developing small and medium sized entrepreneurship, with gradual elimination of burdened economic problems and disproportions. It represents, inter alia, stabilization and strengthening of banking sector, severe and efficient control of active and passive operations of all financial institutes.

Affirmation of anti-crisis measures is an imperative of time and economic growth, which in the discussed region has to be orientated towards production of qualitative services (banking, logistical, tourist, transportation, communicational and so on), on the basis of absolute and comparative advantages. All anti-crisis measures have to be considered through the prism of few basic criteria: increase of production and employment, liquidity, economic effectiveness, restructuring and sustainability of economic growth and development. A special attention has to be dedicated to increase of agricultural production, wherever it is objectively possible.

Global crisis represents a unique possibility to create qualitatively different and better developmental approach to economic policy, which proper implementation can secure a stable economic growth. It includes a complicated and difficult process of fundamental civil and economic changes (innovations) and not cosmetic retouches as so far, which always had a palliative character and limited scope.

It is necessary to overcome a rhetoric and interest sayings about successfulness of neoliberal economic doctrine. The outdated and hazardous market fundamentalism has to be urgently and in a long-run substituted with “*institutional fundamentalism*” (Rodrik et al. 2004) and with enormous doses of some of Keynesian medicaments. The economic policy has to be directed towards production of goods and services (instead of financial engineering and merchantilization of everything), activation of comparative advantages and sustainable development (instead of sale of natural wealth and monopolies). The

institute of state regulation, to which the economic policy belongs, has to be revitalized and made functional.

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Поєднання глобальних та локальних факторів визначає специфіку сучасної фінансової та економічної кризи. Мета цієї статті полягає в тому, щоб вказати на невідкладну необхідність розробки послідовної антикризової політики, яка повинна враховувати фактори глобальної та локальної кризи й ризиків. У цій статті обговорюється вплив реальної інституціоналізації на ефективність економічної політики. Перш за все, звертається увага на первинне значення інституціоналізації в економічній політиці. Відправною точкою є гіпотези про те, що створення ефективної антикризової політики вимагає правильної та своєчасної ідентифікації проблем та процесів кризи, визначаючи необхідні заходи та формуючи методи розвитку, які повинні базуватися на інноваційно-інституційному моделюванні.

Ключові слова: антикризова політика, інновації, інститути, економічне зростання і розвиток, транзитивні економіки.

Сочетание глобальных и локальных факторов определяет специфику современно-го финансового и экономического кризиса. Цель этой статьи в том, чтобы указать на неотложную необходимость разработки последовательной антикризисной экономической политики, который должен учитывать факторы локального и глобального кризиса и рисков. В этой статье обсуждается влияние реальной институционализации на эффективность экономической политики. Прежде всего, обращается внимание на первичное значение институционализации в экономической политике. Отправной точкой являются гипотезы о том, что создание эффективной антикризисной экономической политики требует правильной и своевременной идентификации проблем и процессов кризиса, определяя необходимые меры и формируя методы развития, которые должны базироваться на инновационно-институциональном моделировании.

Ключевые слова: антикризисная политика, инновации, институты, экономический рост и развитие, транзитивные экономики.

Надійшло до редакції 5.04.2012.
