NEOLIBERAL MARGINALIZATION OF SOCIAL COMPONENT IN TRANSITION COUNTRIES

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Abstract
This paper builds on the premise that the economy should be socially oriented and socially responsible, in other words, the natural imperative of the economy is to serve mankind. In this respect, in every economy, it is necessary to develop an efficient system of welfare and social support in order to empower each individual and help one realize his/her professional and innovative potential regardless of his/her socio-economic status. After all, the successful realization of the economic role of government, as well as the creation of such social policy that would result in greater equality of income distribution, is an essential condition for the stability and efficiency of the economic system, since greater equality is not opposed to greater efficiency criterion and more rapid economic growth. However, in transition countries, due to the prevailing neo-liberal concept of deregulation, liberalization and privatization, the social development component is completely marginalized. The consequences of such economic policies have been devastating, and the key social indicators of such situation are: high unemployment, increased poverty, concentration of wealth in the hands of a small minority and social insecurity. The mentioned concept failed and therefore it should be abandoned. In the opinion of the author of this paper, it should be replaced with the model of social market economy.

Keywords: neo-liberalism, transition, economic development, social development, social market economy.

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1. Introduction
The transition process in post-socialist economies implies radical, extensive and complex structural and institutional changes, which are aimed at creating conditions for the establishment of a free and prosperous market economy. However, this process, whose implementation started in early 1990's, was initiated in such conditions where there were no signs of theoretical concept which would serve as a basis for the development of projects that would further support the successful implementation of the concept itself. Therefore, policy makers have attempted to define their own programmes for the transformation of the system. In addition, it was expected that the rapid development of a liberal market and its mechanisms would by all means solve all problems related to restructuring and efficiency increase. Such approach to this unique and very complex system and its economic and social issues was supported by international financial institutions, primarily by the International Monetary Fund. Thus, the programmes were mainly based on the application of the neoliberalism, i.e. the reform package promoted by the Washington Consensus. Due to this, the fact that the economy can function on the principles of economic liberalism only in conditions of developed and efficient market and institutional infrastructure (which was not the case in each transition country) was disregarded. Therefore, such approach can be considered as

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one of the key reasons for large transition costs and social tensions that were present in almost all transition countries during the most part of the implementation process of their socio-economic reform. This was especially characteristic of those countries that were institutionally less prepared for the transition.

Despite the dominance of neoliberal conceptions, from the very beginning of the process of economic transition, the structuralists had very different ideas concerning the concept itself, emphasizing that the weakness of underdeveloped market institutions requires more vigorous state intervention, while the supporters of the neo-liberal conception, which focused on the fundamental problems and weaknesses of state institutions proposed accelerated privatization and market liberalization as the universal solution. According to the neoliberal economic model, in which the Darwinian principle of survival of the fittest rules, the role of the government and the public sector is reduced to a minimum. It was considered that a free market and private entrepreneurship, unrestrained by the state interference, would best meet the needs of every individual. However, in both cases, the organizational capabilities of exclusively state or exclusively market institutions represent very serious limitations.

In order to get a complete understanding of the subject, it is necessary to bear in mind the standpoint of institutional economists who emphasize the growing importance and role of non-material prerequisites of growth, such as institutions and rules (North, DC, 1990) when examining the different, often confronted, theoretical approaches to the transition process. In this sense, rules of conduct are put into the focus of economic development. The basic institutional preconditions for the free acting of individuals are the free market and the free trade which serve as the basis for the division of labor and development of the economies of scale. The mentioned facts indicate that the only right conclusion is the one that states that in order to implement the reform which would result in the formation of the parallel market and state institutions, it is necessary to have the synergy of the market and the state, through which the suitable model of socially responsible economic system, such as social market economy, will be established.

2. The flaws of the neo-liberal paradigm

Different approaches concerning the pace and methodology of the transition process implementation have resulted in disputes between the supporters of the radical reforms who advocated the so-called “shock therapy” and the gradualists who opted for the gradual introduction of changes. Supporters of the “shock therapy” considered that the rapid introduction of changes in the economic system eliminates unacceptable and the least desirable period when the old rules no longer apply and the new ones are not yet fully formulated and therefore cannot be implemented. Unlike them, gradualists indicated that there is no point in destroying the existing institutions and abolishing the previous rules of economic regulation until the establishment of new institutions and new rules. They were right to warn about the fact that an institutional vacuum can result in catastrophic decline in production, which was unfortunately confirmed in practice in large number of countries (Popov, V. 2007, pp. 81-82). The economic and social reality has affirmed the attitude of gradualists, whose warnings proved true, not only in countries that have followed their strategy, but also in countries which have applied the concept of “shock therapy”. The observation of Stiglitz (2002, p. 194) worth mentioning is that many countries that implemented slower gradualism policies failed to achieve a faster pace and deeper reforms.

Aggressive imposition of neoliberal concepts and policies, both by neoclassical economists, and by the relevant influential factors, primarily the IMF, have completely ignored the moral, human, social and environmental consequences of economic decisions. For example, a request that the monetary policy measures establish and maintain monetary stability as the primary economic goal, do not take into account long-term consequences that such an approach may have in relation to the development, social and economic goals. At the same time, the lack of institutional control results in market failures, which then results in suppression of economic freedom and fair competition (Draskovic, V. 2010, p. 89). This situation causes the crisis of the economic system, and thus inevitably results in the social turmoil.
Neoliberals base their conceptions on the view that the market represents the key institution in modern capitalist societies, and, consequently, the overall activity aimed at creating conditions that will be beneficial for the functioning of markets. In this context, the whole course and pace of implementation of the institutional arrangements of economic space in post-socialist countries, was primarily used to create conditions for establishing a market mechanism and respect of market principles in line with free market paradigm. Despite numerous warnings (Kornai, Kolodko, etc.), due to the influence of the Washington Consensus, the intensive implementation of the market system was conducted without any participation of market institutions. The fact that in a market economy, in addition to competition, it is necessary to create and develop its institutional infrastructure was completely neglected. The disastrous economic and social consequences of widespread implementation of liberalization, privatization, deregulation, labor market flexibility were explained by the argument that it is an inevitable price of introducing changes to the system. Thus, the majority of transition countries are faced with insignificantly low rates of economic growth, unemployment growth, increasing poverty and an extremely high level of debt.

The predominance of neo-liberal doctrine, with its three dogmatic demands - privatization, deregulation and liberalization - was the crucial influence in the post-socialist countries related to the process of establishing a new economic system configuration, which declared as a priority the most rapid and comprehensive possible privatization of state property. However, due to the lack of developed and effective state intervention, the public wealth and property were redistributed into the hands of the minority during the privatization process, as well as through other channels, both legal and illegal ones. Thus, the effect of transition, in social terms, resulted in the decline in living standards, growing poverty and growing unemployment. The conclusion is that the transition has became, both in economic and social terms, an unsuccessful project, with the long-term consequences. The neo-liberal doctrine, under whose auspices the transition was implemented in most countries, has completely marginalized social component by insisting on the implementation of reforms based on the "shock therapy" principle.

Based the on empirical data, Chang, H-J (2003. p. 6) indicates that economic liberalism did not show the benefits that were often attributed to it even in relatively stable conditions and it turned out that there is no adequate mechanism to address major economic disturbances. Chang illustrates his claim by giving the relevant indicators of the per capita income growth rate in the different periods of modern world economies functioning – a period characterized by remarkable reliance on the state regulation and a period dominated by neo-liberal concept. In the period from 1960-1980 which is considered as the period of state intervention in developed countries, per capita income grew at a rate of 3.2%, while in the neo-liberal period (1980-1999) growth rate was 2.2%. Growth rates in developing countries were reduced in the same period from 3.0% (first period) to 1.5% (second period), where China and India which did not follow neoliberal recommendations accounted for the major part of the growth in the second period. When it comes to capital flows, empirical data show that high quality direct investment largely remain within the OECD world, and only second-rate investments go to countries which are on the threshold of development (Cirn, 2003, p. 99). Thus, once again the economic reality supported the warning sent by Galbraith (1975) in the mid-seventies that economic forces, left to themselves, did not work for the common good, except perhaps for the good of the powerful minority. He points out that unlimited operation of market laws inevitably leads to unjustified inequality in income distribution, which causes distortion in exploitation of resources, diverting them from meeting the necessary needs of the majority to satisfying the most esoteric needs of minority. This inevitably leads to distortion of the economic and social stability.

The experience and results of implementation of the transition process have thus far shown that the active economic, political, and the appropriate role of the state that will develop, organize, regulate and control this process is essential. This active role does not imply the state as the owner and CEO of the public enterprises, but, above all, as the "architect" of institutional arrangements, the leader of the activities in the area of infrastructure development, as well as
the bearer of an active attitude towards global integration. The responsibility of the state for the successful implementation of establishment of institutional system is crucial in the long run. This is necessary, since "there is a connection between the lack of appropriate institutional arrangements on the one hand and spreading of the inequalities and poverty increase, on the other" (Kolodko, G., pp. 1-6). This situation points to the need to balance individual and collective needs, as a condition for the success of a society in the long run. The active role of the state and other representatives of public interest such as trade unions and other civil society organizations is required in order to be able to establish and maintain this balance. This means that the ways in which the state influences the behavior of the economic entities should be diverse and comply with the principles of market economy and private entrepreneurship.

Numerous economic studies, as well as economic reality, indicate that the state with its actions contributes to the improvement of the performance and quality of an economic system. By encouraging economic activity, through the instruments and regulative measures, the state allows the attainment of these goals through:

- establishing and guaranteeing a consistent and stable institutional infrastructure, by determining and protecting the property rights, above all, by guaranteeing the protection of legal principles and the rule of law, as well as introducing norms that will enable efficient long-term financing,
- creating the conditions for quality education, adequate healthcare, infrastructure development, protection and preservation of the environment, as well as and other features necessary for the successful development of economic activities,
- establishing both macro-and micro-economic environment, as a stimulating factor for the more efficient carrying out of economic activities.

At the same time, it should be noted that the state, through its actions may cause certain economic distortions, which result from the inadequate solutions, price fluctuations, higher transaction costs due to corruption, if the laws are being changed frequently, or if governments changed frequently. However, the occurrence of these negative tendencies, which are the result of state influence on the economic system should not be the reason for denying the role of the state or for promoting the neo-liberal policies. Proponents of neoliberalism overlook the fact that most developed countries today (U.S., Germany, Japan, etc.) achieved their impressive economic growth in the periods when national development strategies were applied, rather than at the time of strengthening the system of liberal institutions. To put it simply, the fact that the internal development and institutional relations are rarely successfully accomplished by the general liberalization of economic relations is frequently ignored (Popov, V., pp. 84-88). On the other hand, the development crises were always solved by state intervention rather than leaving the development in the hands of the unrestrained action of market forces, which might be expected if we follow the logic of liberal economic concepts. The proof is the current global crisis. Because of these different experiences and knowledge, despite the widely held opinion that the liberal system provides the fastest economic growth, prosperity and freedom of economic activity, no underdeveloped and economically poor country has willingly opted for this type of system as its development paradigm because of the alleged advantages which would be brought on. At the same time, the underdeveloped countries are right to fear the competition of stronger countries and imposed restrictions in terms of protecting their own interests and defining development goals and priorities.

The advantages brought about by a balanced use of market and state allocation and coordination mechanisms are supported by the impressive results which the China's economy recorded in the last two decades. With an average annual growth rates of around 10%, the country is currently among the world's new economic superpowers. Such dynamic growth of China is the result of its greater openness that was introduced in the late 1970s (initiated by the reforms introduced by Deng Xiaoping), subsequent market reforms and strengthening the private
property rights. However, the Chinese system kept central economic planning by the state, as well as the strong public sector, and the entire financial system remained under the state control. An efficient economic system, which is a symbiosis of free market, private entrepreneurship, central economic planning by the state and a strong public sector was established by skillful implementation of the reforms, which in turn completely defeated the concept of neoliberal economics. State planning institutions define the development priorities and the state itself implements economic policy measures by exerting a strong influence on the economic conditions. However, considerable space is left for operation of market mechanisms, private entrepreneurship and business cooperation with foreign corporations. In this way, a synergy of all relevant factors, which allows for the dynamic economic and social growth and development of this most populated country is achieved. A similar economic concept is also characteristic of other BRIC, that is BRICS countries.

Economic reality has confirmed the view that free markets provide the successful economic growth and prosperity of a country. However, in the long run, the spontaneous effects of market laws, since they cannot provide a balanced, optimal and socially acceptable functioning of economic activities, leads the development in the opposite direction. It turned out that, despite all the advantages brought about by the competition, it is unreasonable to expect that a free market, which is left to itself, can initiate such development which will be beneficial for the society as a whole and successfully address economic and social problems. However, this does not mean that the positive role of free market as a mechanism of optimal resource allocation and coordination of economic activities, which contains an important motivational component for economic actors and which is a prerequisite for economic success and overall growth and development of economy and society should be denied. This mission can be successfully achieved by the free market if it is in compliance with the regulatory, guiding, and corrective actions of the state. Such an integrative complementary blend of the market and the state enables the successful achievement of long-term economic, development and social goals of a society. After all, even the protagonists of the neo-liberal concepts, faced with the reality that the system based on those grounds fell into economic, social and moral crisis, agree that the existing concept should be transformed and a new socially responsible and more humane economic model established, as a means of achieving economic and social prosperity. It has been pointed out (Mesaric, M. 2006) that "the need to harmonize the principles of profit with social and ethical principles emerged as a response to the increasingly evident weaknesses, failures, and the crisis of the existing ruthless, socially, environmentally and ethically insensitive capitalism." Thus, the economic, social, environmental and ethical consequences of market fundamentalism influenced the protagonists of this doctrine to recognize the necessity of valorization of broader social and moral interests.

3. The necessity of a socially responsible economy

It goes without saying that the market economy is a prerequisite for achieving a prosperous social and economic development, but this does not involve the uncontrolled satisfaction of personal needs and complete marginalization of the social interests. Responsible attitude towards social and moral values is a precondition for viable economic and social systems. This implies that the social responsibility of the economy, that is, putting economy in the service of man, represents a natural imperative of economic activities. In this regard, in addition to economic efficiency, each economy requires the existence of a developed and efficient social security system, which allows that the working and innovation potential of every person, regardless of his socio-economic status, is realized in the best possible way. After all, successful realization of the economic role of the government, as well as creation of such social policy that will result in greater equality in the distribution which is an essential condition for the efficient and stable economic system, because the greater social equality is in pronounced conflict with the criterion of greater efficiency and faster economic growth.
The very mention of the social responsibility of the economy in transition countries is usually associated with the previous socio-economic order, thus, the arguments related to the inevitability of abandoning such concept, oppose the fact that the economy should be socially responsible. However, as indicated by Thurow (1997, p. 250), “the welfare state was not created by the “wild” left-wing politicians. Its creators, were enlightened aristocratic conservatives (Bismarck, Churchill, Roosevelt), who implemented the policies of social welfare in order to save, and not to destroy capitalism, with the intention to protect the middle class”. As for transition economies, the economic reality and the growing economic and social inequalities place the responsibility issue in the epicenter of the economic model.

The neo-liberal model, as rightly indicated by Mesaric (2011, p. 12), by producing an irreconcilable conflict between the greed of the corporate and financial oligarchy for rapid and maximum profits on the one hand, and the rights of the majority of the employed population in economically and socially justified participation in the distribution of realized income, on the other hand, leads to the inevitable process of social polarization. A free, uncontrolled market activity on one side, creates wealth and abundance, which is exploited by the small minority, while on the other hand, it causes unemployment, poverty, hopelessness for the great majority of the population. Thus, unjustifiable inequality in the income distribution is a result of the functioning of the free market mechanism, which undermines social stability and cohesion of society. Therefore, the active and corrective role of the state as a complementary factor of the market mechanism is necessary for the establishment of the economic and social balance, as well as the market itself.

In order to avoid the risk of social unrests, initiated by the growing gap between the rich, who represent the small minority, and the poor and marginalized majority of the population, it is necessary that, in addition to efficiency, economy included a social component. If we want to establish a community which would be successful in the long run, it is necessary to establish a balance between individual and collective needs, which calls for the active role of the state.

In many cases it was shown that the congruence of the economic and social goals is a realistic precondition, not only for greater social stability, but also for the successful carrying out of economic activities. In this way, the economic growth is simultaneously stimulated, while the social inequalities are more successfully restrained by reaching a higher level of material well-being. In those countries where the state actively participates in the management of economic and social affairs, the significant portion of available resources is used for the achievement of social goals. The intervention of the state is based on the principles of equal opportunities, equitable distribution of wealth and a public responsibility to the people who cannot achieve minimum requirements necessary for decent standard of living. Among developed countries, certain concepts of democratic welfare state are characterized by very different institutional realities, which range from the Swedish model as the most developed one, to the USA “War on Poverty”.

The economic policy of the state, which incorporates social prosperity as one of the egalitarian economic goals, consists of three components:

- economic efficiency, as the basic precondition for a policy to create conditions for accelerated economic growth and the well-being of the society,
- distribution of manufactured goods that meets the minimum standards of fairness and secures social integration,
- every active growth and income distribution policy involves sufficient taxes, i.e. ability to obtain sufficient resources from the economic activities and their use for the common good.

Kaufman (1997, pp. 34-37) suggests that the social policy does not only represent the cost, but that it rather has the undeniable economic benefits, in terms of increased efficiency, since it contributes to the building and maintaining of the human capital. The practice showed
that the policy of cuts in terms of social programmes resulted in loss of economic benefits that should come from social policy. This shows that social policy is indeed a significant investment, which in turn has a significant effect on the level of economic efficiency. By introducing cuts to this policy, the creative space in which the costs are reduced and the benefits improved is seriously limited. Here, we do not talk about social policy that includes giving social benefits to unemployed persons with no income, but, above all, the social policy in more general terms, which includes labor market policies and educational policies.

In terms of the social component in the transition countries, a significant increase in unemployment, decrease in living standards and increasing poverty occurred compared to the pre-transition period. Economic activities were carried out in conditions of underdeveloped institutional infrastructure and inadequate state regulation, which favored the redistribution of social wealth in favor of a relatively small group of individuals. This state of the economy could not produce economic growth. On the contrary, there was a sharp drop in GDP and the enormous increase of foreign debt. Deindustrialization, as an essential characteristic of the most transition countries in transition, together with a drop in gross domestic product, has led to layoffs in the industrial sector, which, with reduced employment in the privatized enterprises, further increased the unemployment rate. To illustrate this, let me mention that the industrial production in Serbia in 2009 was 17% lower than in 1998, when the country was under sanctions. This situation is a product of a concept where the economic policy makers and economic system itself set as the main goal the privatization of state/public property, liberalization and deregulation of economic trends for the priority objectives of economic transition, expecting that the free, unconstrained market will make for optimal resource allocation, as a precondition for economic efficiency, and create the basis for successful addressing of economic, development and social issues in the society. Therefore, the expectations that the economic growth and the growth of social wealth can be achieved, as a condition for further realization of the social goals is unrealistic.

Neoliberal economists argue that managers are not obliged to engage in solving of social problems, and that the only social responsibility of the businesses is to share resources and energy used to increase profit in compliance with the existing legal norms. In accordance with the concept of neoliberal policies, the capital tends to accomplish short term goals, particularly the profit maximization, which reduces the labor costs (lower wages, layoffs, lower social security). Whereby this the qualitative component of the labor force (motivation, responsibility, economic and social security, education, creativity) is pushed into the background, although this is an important condition for efficient use of available production resources.

However, contrary to this concept, the economic and social reality show that the socially responsible economy represents the objective validation of successful growth and development (Vladimirovich, 2011). This is determined by the fact that, in the contemporary economy, human capital represents the dominant factor of production, therefore investing in this particular production factor is motivated by real economic interests of entrepreneurs. Bearing in mind that the level of education, skillfulness of the labor force, state of scientific research, health care and social security directly affect the pace and the quality of economic growth, it is only logical that the social sphere as a whole is one of the most important sources of economic growth and development. Since it is characterized by the pronounced social inequality, the market itself is not able to create a high-capacity social sphere.

The economic model that has successfully incorporated the important social elements with an active national economic and social policy, is entirely affirmed in the Western countries. Its vast experience shows why it is necessary to abandon the ideology of market fundamentalism and establish systems that will produce the optimal balance between individual and collective needs and interests, between self-regulating market mechanism and the regulatory and corrective actions of the state (Mesaric, M. 2006). The role of the state in the processes of economic and social transformation is particularly important and irreplaceable in the transition countries. At the same time, the mentioned experience shows that there is a room for possible expansion of state functions in modern economies that does not restrain economic freedom, thus ensuring a balan-
ce between market efficiency and social equality. Namely, in the short term period, market supports inequality in income, while in the long term, providing conditions for the reproduction of the high-quality labor force implies mitigation of social inequalities. It is therefore necessary to replace the neoliberal policies, which promote selfish and short-term interests of capital, with the socially responsible policies because only in this way and only by implementing this approach can real basis for the economically successful, socially just and humane society be achieved. In this regard, it is important to look up to the positive experience of the German social market economy model, where the focus is on individual freedom, protection and enhancement of competitiveness and strengthening of social partnership and equality. This model is an example of how an economic system can be created in order to provide an adequate level of satisfying the material and spiritual needs of people, which gives this system significant social orientation and social responsibility. In compliance with the affirmed economic and social benefits, we believe that the most suitable economic model for transition countries is the model of mixed social-market economy.

4. Conclusion

One of the key issues related to the implementation of the concept of transition process is whether neoliberalism is the only acceptable philosophy for the post-socialist economies? Numerous economists warned about this misconception, and today, after more than two decades since the beginning of the transition process, even the neoliberal economists agree that the economic system cannot function successfully if regulatory and coordination mechanisms of the state are completely excluded from the economy. However, for the most part of transition, when the goal of neoliberal market reforms proclaimed the creation of the market mechanism, and not the rise in living standards, when the means and objectives of the reforms were mixed, the first victim was the social component of the economy and society. Thus, in conditions of growing inequalities, both economic and social ones, as an inevitable consequence of the transition process, as well as the low growth rates, a key question is raised: what kind of economy and society we want to establish by implementing transition process?

The answer to this question points to the necessity of creating a comprehensive and realistic achievable long-term economic development strategy. One of the key outcomes of such defined strategy should be the economic system that will not only be hypothetically, but also socially efficient and create real conditions for modernization and progress of society. The carriers of such development should be all members of the society, not just particular social classes, as this is the precondition of the efficient use of all production resources and more even distribution. Furthermore, economic reality has confirmed that, in a market economy system, the macroeconomic management constitutes a very important element of efficiency of economic system and economic policy, which implies the complementarity of the state and the market. The key conditions for effectiveness of such system are efficient and developed institutions that will serve as a basis for the social responsibility of the economy and thus reduce social and economic risks, potential and real social tensions, which is also an essential prerequisite for sustainable economic growth.

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