

NEOLIBERAL CAPITALISM THROUGH THE CURTAIN OF THE ECONOMIC CRISIS

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Abstract. *The history of capitalism consists of different phases. Neoliberalism is the last one. That is a completely new type of capitalism, i.e. its reincarnation, well-known for its violence. It can be said that it started in 1979 with Volcker's increase stop, but also with the revolutions in Chile and Argentina during 1970s or with the governments of Margaret Thatcher in Britain and Ronald Reagan in the USA. The center of Neoliberalism is in the USA where financialization and financial hegemony reached its peak, based on the assumption that the free market, as a self-regulating system, by the power of its "invisible hand" allocates the resources and ensures peace and well-being to all the peoples of the world in an efficient way. However, this doctrine has not bypassed the countries of Eastern Europe, since it was proclaimed as the holy trinity of Washington Consensus – liberalization, deregulation and privatisation. Thus, neoliberal market fundamentalism has boiled down to the glorification of market and eliminating the state monitoring of economy.*

Does the world economic crisis present the end of this hegemonistic economic system? The current economic crisis has been caused by the crisis of subprime mortgage loans that resulted in mortgage balloon explosion. It started during 2006 by structural crisis due to the hyper-production in car industry and the crisis of real estate market in the USA. A rapid plummet of inflated prices of residential and commercial properties has resulted in decline in property values thus jeopardizing mortgage system and all its derivatives that existed thanks to real estates whose value decreased. Besides, three American, as well as some European and Japanese, car manufacturers have noted steep falls in sales. Thus, the crisis that has been spoken and written about for full two years is not only a world financial crisis, but a comprehensive crisis of the Western civilization that has overflowed to all the parts of the world.

As for Serbia, it faced the world economic crisis in the middle of its own crises in economic, social and political spheres. In other words, local and global crises have crosscovered and poured into a dangerous flow. In plans and forecasts that are aimed at recovery, we cannot

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close our eyes in front of dramatic economic indicators. Unfortunately, the possibilities of recovery are, thus, more than modest

Key Words: *neoliberal capitalism, hegemony, privatization, makroeconomic indicators.*

INTRODUCTION

Deeper roots of contemporary economy can be found in the economic school of neoliberalism that also promoted globalization. However, a unique definition of neoliberal economy does not exist. It is about a set of ideas that can be classified as "soft neoliberalism" and that is declared by the already mentioned and described "Washington Consensus", up to those that can be defined as "hard neoliberalism" that represent the ideas of Milton Friedman and Grower Norquist.

It is completely clear that it is now late to answer the question whether it was possible to predict the economic crisis of such an extent and to suppress its influence in certain regions, or reduce its consequences. The efforts of the countries that tried to hedge it, unfortunately, have not shown the expected results. All the activities aim at filling the state budget, at the expense of depleted taxpayers in order to cover the deficit in public finances. The therapies that economic doctors prescribe to their states are not based on higher VAT or extra zones expansion in order to increase property tax, but introducing speculative transactions tax. The issue here is the following: are the countries ready and brave enough to address this issue? Undoubtedly, neoliberal economy has paved the way for crisis to happen, so the worst prediction will mean that neoliberalism in Eastern Europe, where they have already experienced their reincarnation, will continue to operate. The solution is in radical abandonment of the concepts of neoliberal ideology and the creation of new social and economic orders. And, while the decline in economic activity was noted for the second year in a row (we will ignore the exceptions), financial injections are injected into the financial sector. Another recommendation for action to combat the crisis should be related to the fragmentation of the banking sector. Is there hope for Serbia? Although a modest, but also the only real solution for overcoming the crisis in our country that the authors see is in a powerful turn to agriculture and incentives in this area.

1. (UN)SUSTAINABILITY OF MARKET FUNDAMENTALISM AND NEOLIBERAL CAPITALISM

The ideas and measures of the social policy initiative aimed at combating poverty were given the institutional framework through "Great Society Program" and "War on Poverty Program", creating in the USA a smokescreen known under the pseudonym "the welfare state". In order to ensure welfare, the state followed the principle of holding "all the strings in its hands". A big turn in economic theory and practice, preceded by numerous social programs, including programs for the unemployed that caused violent reactions of employers, occurred under the influence of several factors. One of the first events that reintroduced free market, as the only regulator of economic processes, was 1973 oil crisis that caused an enormous increase in crude oil price and was due to OPEC cartel activities. The second oil shock happened six years later and increased oil price from 12.70\$ to 28.76\$ per barrel. This dramatic increase of oil price led to inflation, production decrease and certainly unemployment in the USA, but also in other Western countries.

Business circles with professor Milton Friedman from the University of Chicago, a fierce advocate of market fundamentalism, suggested a return to free market freed from state monitoring. This school thought that deregulation, liberalisation and state assets privatization would solve all the problems and find the solution for economic recession. The administration of president Ronald Reagan that came to power in 1980, but also the controversial government of Margaret Thatcher that had won the elections a year prior to that, accepted the new course of the new neoliberal economic policy. The role of state budget in redistribution of income in the USA was reduced, primarily by reducing the highest rate of income tax from 75% to 33%. Capital and property taxes were reduced and consumption tax was increased, thus moving tax burden from capital to citizens. Numerous activities of Reagan's administration reduced the role of trade unions.

In neoliberal economy, the main role belongs to transnational corporations. The primary goal of those corporations is to maximize the profit, as well as a share value growth. Since in classic economic doctrine the role of money is to be the means of exchange, savings and accumulation, in neoliberal capitalism money becomes the means for itself, since it brings social, economic and frequently political power. A profit, as a motive, becomes absolute and everything is done to realize it (work costs are being reduced, industries are being moved to the countries with lower work costs, lower taxes, standards of environmental protection, etc) and money, i.e. profit gets the highest social value.

Friedman advocated the radical revision of the state regulation of economic growth. Also, he required from the state to give up deciding on minimum wages, interest rates, welfare programs, import quotas and especially compulsory pension insurance and financing social housing for the most vulnerable population¹. He sees the role of the state only in setting generally-accepted rules of the game, i.e. in the rules of market competition. Friedman's insisting on abandoning state interventionism was motivated not only by economic, but also political reasons, since he publicly warned that the concentration of power in the hands of the state endangers the freedom of an individual as well as democracy. Wishing to help Friedman's demagoguery, the WTO accelerated abandoning remaining barriers to free international trade and became a powerful institution in the last decade of XX century, led by the influence of corporations that wanted to abandon state restrictions and regulations that limit free movement of goods and capital.

Global, neoliberal, corporational, transactional system is very thoroughly established. According to one of the leading radical sociologists David Harvey, we live in the historic moment in which we should look further than capitalism, towards a new social order that can enable us to live in a system which can be responsible and human. The crisis of neoliberalism inevitably led to a financial and economic crisis which is global today. Although Harvey's standpoint was that periodical episodes of failure were not exclusively the characteristic of capitalism, in his articles, he defines important systemic errors of capitalism – the lack of moral, ethic and lawlessness. His attitude is historically provable. Namely, previous structural crises also influenced the change of social structure. The crisis of 1890s was provoked by the lack of profitability; the crises of 1929 and 1930s and the Great depression were caused by financial crises; the crisis of 1970s was also a crisis of profitability; while the crisis that began in the beginning of XXI century has been

¹ Milton Friedman *Capitalism and Freedom*, The University of Chicago Press, Chicago 1962 p. 166

provoked by the collapse of financial hegemony. The crisis of neoliberalism happened when a capitalist "disappeared" due to the lack of control of a credit system.

George Soros has distinguished himself as a fierce critic of market fundamentalism and the faith in "market magic". As early as 1998, just after the crisis in Thailand, he started warning about the inherent disability of international, global financial market. He thinks that an unbound market causes disbalances and that those disbalances are of a cumulative character². He also thinks that the inherent instability of financial market is not understood as seriously as it should be and that contemporary world is striving towards a global disintegration. Thus, he forecasted the global market crash in a rather apocalyptic way. Soros emphasizes that the unbound freedom of the market and *laissez-faire* cause an excessive inequality in income distribution which previously had led to communist ideology and totalitarian communist regimes. Namely, he advocated the middle ground between etatism and unbound market freedom. According to him, a market should be regulated, but the regulative and control measures should be based on the market mechanism, neutralising bad consequences of its spontaneous effects.

However, in Eastern Europe, Soros allowed forming public, criticism and resistance. Why? The powerful OSI brotherhood (Open Society Institute) and SCCA (Soros Center for Contemporary Art) have become shelters of neoliberal privatisation. At this point of time it is clear that his philanthropic work in Eastern Europe was, essentially, a neo-colonial interest and that he used the ideology of an open society (that spread thanks to his money) as an excuse for establishing his influence in post-communist East and enhancing his wealth.³

For decades, financial flows and transactions have dominated real economy. Production and goods and services have been transferred to lower margins of economic interest. The reason for that is the fact that the basic assumptions of neoliberal capitalism were set by Washington Consensus⁴:

- Abolition of state, i.e. public sector, not only in production, but also in infrastructural services – maximal privatisation;
- Reduction of state interventionism as much as possible – maximal deregulation;
- Abolition of all the barriers and free flow of goods and capital – maximal liberalisation;
- Tax reform that is based on tax reduction to the wealthy and tax reduction to the poor. Joseph Stiglitz is a leading critic of market fundamentalism and neoliberal capitalism today and emphasises the following consequences as harmful:
- Making the poverty in handicapped countries even bigger;
- Endangering the balance of eco systems and
- Creating a dangerous unsteadiness of international financial market⁵.

² G. Soros *Le defide `argent*, Paris, 1996

³ When in 1993 Soros earned a billion dollars in two weeks by currency speculation, he invested the money into businesses in Eastern Europe and their cultural, intellectual, artistic, activist and other activities.

⁴ In 1990, the IMF, the World Bank and Ministry of Finances of the USA passed the Washington Agreement. It provides ten principles that Latin American countries should stick to in economic policy if they wish to attract more financial funds. After the program had been imposed to Latin American countries, it was imposed to the countries in transition and a half of existing countries. All developing countries, except China and India, accepted the principles of this Agreement, either because of "the suggestion of the IMF" or because it was imposed on them.

⁵ Joseph Stiglitz *Globalisation and its Discontents*, Allen Lane, London, 2002 p. 236

In October 2008, Stiglitz announced the death of this ideology that he also called market fundamentalism. In the radio show "Peščanik" on December 13, 2008 he stated the following: "That should be the end of the idea that deregulation and liberalisation lead to economic efficiency. The responsibility for the crisis is primarily on the financial sector, banks and mortgage providers, followed by regulators, since they have not stopped their greed and finally, "their accomplices" – rating agencies. Neoliberal market was not a free market, but corporate welfare that was forbidden by free market economy language"⁶.

The consequences of neoliberalism can be described in the simplest way by the following sentence: "The rich are getting richer and the poor even poorer"⁷. According to historical experience, especially in developed economies, the syntagma "free market" is rather suspicious and contradictory since the freedom of market is imposed as a standard to weaker actors in international market, while powerful economies behave in accordance with their strategic and/or current interests in supporting certain sectors, branches or activities. Double standards in the world economy are not in favour of the affirmation of philosophy and practice of neoliberalism and cause suspicion in the economically less developed countries⁸.

The interest is defined by new neoliberal rhetoric. Terms: capitalism, imperialism, exploitation, surplus value and enslavement are replaced by the following terms: transition, privatisation, entrepreneurship, employer, business, profit. The new roles are a manager and a shareholder.

Global neoliberal, corporate, transactional system is quite grounded and the mortgage crisis in 2009, caused by sub-prime loans, only wounded it, namely grazed, despite the fact that it was one of its causes. As you can now privatize water, flora, or genetically modified organisms, you can also privatize one's free will. This can best be shown by the example of post socialism or post communism where this learning experiences its reincarnation and finds its shelter. Systematic and planned marginalization and neglect of the former socialist companies present the effect of neoliberal hegemony, already seen in the aforementioned sentence, "the rich are getting richer." On the examples of ownership transformation (privatization) and the transition economies, neoliberal economic hegemony is the one that with its exclusive "free will" decides what is old and therefore has to be ruined and what is new and therefore necessary. The West was proclaimed as a historical source of neoliberal school (which had already been under pressure and criticism of certain scientific and professional circles), i.e. as its capitalist and cultural locations, while the post socialist and post communist Eastern Europe was a new place for neoliberal hegemony. Thus, here, the word is not about the model of a colonial power, because the capitalist West, behind the curtain of neoliberalism and market fundamentalism, introduced the ruined "welfare state", but about a new reincarnation of this hegemonic school in the new "natural" and "political" environments, where in the waves of mass privatization the ownership of people turned into the ownership of few from the establishment of the rich.

⁶ Stiglitz, J. (December 13, 2008). *Joseph Stiglitz on financial crisis*. Taken from the website <http://www.pescanik.net/content/view/2443/1170/> on March 22, 2011

⁷ David Harvey *A Brief History of Neoliberalism*, Oxford University Press, 2005. p.16

⁸ Kosta Josifidis "Neoliberalizam – sudbina ili izbor načina života (i) u tranziciji" *Privredna izgradnja* XLVII 1-2 2004, p.11

In Eastern Europe, neoliberal hegemony is the modern slavery of those classes that do not belong to the establishment of the wealthy. The very Serbian example shows that until recently (and for some politicians it is still going on) there has been blind faith in the basic principles of neoliberal ideology, in the omnipotence of private initiative, self-regulating "market power", the elixir of deregulation and liberalization. In other words, what is called neoliberal capitalism and market fundamentalism in Western Europe, in former communist countries it is criminal and corruptive capitalism.

Globalization, which has been advocated for twenty years, is now one of the main causes of the wide-spreading crisis and recession.

After the crisis was officially proclaimed in September 2008, its effects spilled over to Serbia causing a strong slowdown of economic activity. In short, the fall in aggregate demand, both domestic and export one, led to a downturn in economic activity and the vicious circle, impossible to get out of. However, if globalization is, as a phenomenon, responsible for the rapid expansion of the current economic crisis in all the countries of the world, it must be concluded that the effects, visible today, are much less severe than those in 1929. The reason are different social and economic structures of modern states, but also the efforts of economic and political authorities to manage crises. On the other hand, if we retain the assumption that globalization is to blame for everything, here are a few arguments. The process of globalization requires the liberalisation of the flow of money and goods, thus abolishing the obstacles for competition. Also, the criticism of the unions are nothing more than allowing "the market to restore its balance." Globalization sees the balance of the market as an equivalent to minimal wages. Namely, the distribution of added value drastically exacerbated to the detriment of the most of the population a half a century ago. In the USA, the epicenter of the earthquake called crisis, salaries have stagnated for forty years, although the productivity has increased. In the same period, profits have increased so much that their participation in the National Income has recently been at the highest level in 50 years.⁹ A huge part of the added value topped the profits or salaries of business establishment. During 2005, only 1% of the richest people in America participated in National Income with 22% of their earnings. Such a model of distribution undoubtedly forced the population to lean intensively on loans so that they could enhance their purchasing power in the conditions of their income stagnation. The crisis escalated and thus the modern economy based on market fundamentalism and neoliberal capitalism fell the endurance test, while too inflated debt bubble in the credit market was convicted "to explode"¹⁰.

Another clearly seen and potentially very dangerous disadvantage of neoliberal school is favoring the financial sector. Financial sector that is a key generator of the crisis has been saved, additionally enhanced by mergers and acquisitions and made even stronger. Moreover, the state intervention goes so far as to "pump" money in the privileged financial sector. In fact, the crisis has shown what happens when today's economy warrantor of the financial system - the United States succumbs to its crisis. Whatever it is – a puzzle or a riddle by John Connally that says "Dollar is our currency and your problem" turned out to be a great truth.

⁹ <http://nkatic.wordpress.com/2010/01/20/neoliberalni-koreni-svetske-ekonomске-križe-tekst-objavljen-na-sajtu-nove-srpske-politické-misli/>

¹⁰ K.F.Scheve & M.J. Slaughter "A New Deal For Globalisation" Foreign Affairs July/August 2007

Table 1. Performances of financial markets of the USA and Europe in 2009

Sector	Market	Market size Amount	% in total market						
			2008	2009	Europe	USA	Japan	Rest of Asia	Rest of the World
Banking	Investment banking revenue	Billion	58.9	66.3	33	50	-	6	16
	Assets of commercial banks	000 bill	31.2	30.0	65	10	8	16	11
	International banking	000 bill	96.4	95.5	53	14	10	12	7
	International bank loans								
Insurance	Total premiums	bill	4220	4066	40	28	12	9	8
	Marine insurance premiums	bill	23.4	22.9	59	9	10	1	13
Fund management	Assets of pension funds	000 bill	25.9	28.8	21	63	4	5	12
	Assets in funds	000 bill	18.9	23.0	33	48	3	25	11
	Private property management	000 bill	32.8	39.0	24	27	-	6	24
	Hedge funds	bill	1500	1700	23	68	-	15	3
	Private capital	bill	181	91	15	67	-	17	3
Securitisation	Trading foreign stocks	000 bill	114	81	16	58	5	8	4
	The bond market	000 bill	59.3	65.1	29	38	18	2	7
	Initial public offers	000 bill	27	25.6	24	59	1	19	15
	Securitisation	000 bill	1010	1054	33	23	6	3	19
Derivates	OTC derivates	bill	2173	2698	65	24	2	-	5
Forex	Foreign currency trading	bill	4281	5056	56	18	6	13	2

Source: IFS (<http://www.thecityuk.com/media/191881/global%20fin%20mkt%20regional%20trends%202010.pdf>)

The financial sector of mature economies is characterized by the fact that risky transfers have been encouraged through investment funds, either in capital or in speculations since 1990s. They needed more and more profits¹¹, due to the greed of their investors whose appetites progressively enhanced and they lost both the brakes and boundaries. Undoubtedly, in a shy way, they were encouraged by pension funds, who benefited from the demographic picture. The hypothesis of neoliberal economy is the following: "All are equal in an economy, but the financial sector is "more equal" than others". Although we have been caught by the global economic crisis and are trying to look at it from different angles and provide an answer to the question whether it could have been predicted or not, all who think that the crisis has been created by itself are largely mistaken. Yet, the problem of occurrence, genesis and development of the crisis can not be simply defined, because it has been composed of many elements, closely linked together and it is often impossible to determine its beginning and the end. These characteristics are also typical of the great economic crisis in 2008 that we are witnessing today and the consequences of which all of us still feel and suffer from them. However, current economic crisis is treated as the consequence of the mortgage market collapse in the USA, provoked by deregulation of the financial market and banking system¹². Sensing weakness of neoliberal capitalism, but also the threat that this school created by its teaching to national economies in 2006, the World Bank created the Commission on Growth and Development. Regardless of the controversial views on the

¹¹ Especially closed investment funds

¹² Dušanić Jovan "Svetska ekonomska kriza kao izgovor za pogrešnu domaću ekonomsku politiku". *Nacionalni interes*, p. 55

report that was created two years after its formation, it well predicted the crisis to come. But, the value of the report is much deeper and can be seen in the following. The first task of the mentioned Commission, chaired by Michael Spence¹³ was to examine the experience and developing models of thirteen economically most successful countries in the period 1950-2005. The report turned away from the ruling neoliberal economic dogma and concluded that the analyzed countries were not too fond of free market while implementing development policy and that they often underestimated the value of domestic currency and protected domestic industry from foreign competition. The report also suggests that successful models were based on the high rate of savings and investments, as well as that foreign loans cannot be an alternative to domestic savings.

As early as 2009, the IMF, wishing "*to reform and modernize the international financial institutions*", to be able to assist member states by increasing the credibility and accountability of institutions for better strategic insight and decision-making, was given the key role in financing the future needs of countries that would be affected by the crisis and that would seek financial help from the Fund. That is how the Fund, after massive criticism, returned to the centre of the world financial system with a very important task – this is not only a financial support, but in cooperation with the Board of financial forum, it follows the trends and timely points out the problems and ways to overcome them¹⁴. On one side, the important decision was that, with the aim of enhancing international liquidity, the funds of NAB were increased to 250 billion SPV. However, much more dangerous is the fact that the countries of Eastern Europe, especially Serbia, became a bankruptcy debtors of the IMF and the IMF became a trustee of Serbia. In other words, contemporary economic slavery is a debt crisis. "The states such as Serbia that made a standby arrangement with the IMF did not benefit from it, which can be seen in the situation before and after the IMF"¹⁵, stated Joseph Stiglitz during his visit to Serbia in December 2008. He further stated that the IMF asked the central banks in those countries to focus on reduction and maintaining low rates of inflation, while financial stability, growth, development and employment increase were neglected.

2. THE REVIEW OF THE MOST SIGNIFICANT ECONOMIC PROBLEMS

The first problem that emerged during the crisis is the reduced liquidity of the global financial market. And since one group of experts presents the problem as virtual money, another one defines the problem of liquidity as a technical one. However, although the problem has partly been solved¹⁶, the problematic consequences that "survived" are that loans have become rather unavailable. Financial sector that was the first to recover was insurance sector. Advanced economy, i.e. developed economy is a premise for insurance sector growth and development. Advanced economy does not suppress real economic sector. Yet, with premium income of \$1.753 billion Europe was the leading zone in 2008

¹³ The winner of Nobel prize in economics in 2001

¹⁴ Dragana Djurić "Posledice i odgovori na finansijsku krizu" perspektive privrede i društva u uslovima globalne ekonomske krize, Akroazis, 2009. pp.3-15

¹⁵ <http://in4s.net/stari/ekonomija/85-ekonomija/4552-tiglic-srbija-nee-biti-izuzeta-od-krize>

¹⁶ Excessive pumping money into financial sector in the end of 2009 and beginning of 2010 brought it out of crisis. Once again, the fact that financial sector is the first among "equals" is proved here.

(when the crises escalated). According to the size of premium income, the North America with total income of \$1.356 billion in 2008 and Asia with \$933 billion were behind Europe. The most developed four countries in insurance sector participate with more than a half of all the premiums, while the USA and Japan together make 40% of total insurance assets.¹⁷

The series of bankruptcies of large financial organizations in the USA influenced an increase in systemic risk. Financial markets are not insured against that kind of risk. According to the analysis in extraordinary volume of Economic Outlook OECD, the financial crisis in the USA spread to the whole world causing a great drop in loan approvals. Recapitalised by state money, banks do not want to acquire non-performing and doubtful debts and preserve the assets for the performance of obligations¹⁸. As for emerging market economies, they faced the outflow of foreign capital and experienced local currencies weakening in double-digit percentages as early as the end of 2008. The general characteristics of the crisis is the fall in prices in the financial market, which is caused by the fall in demand for securities. The cause of the previous is the fact that investors lose the interest in investing their money in certain assets. The problem in this case can be either distrust or lack of sufficient funds of available resources. If this process is global and not sporadic, there is a boomerang of sale when the investors wish to change their positions as soon as possible so that they can save the invested money or have smaller losses. However, this process spreads further, affecting the economy and companies listed on stock exchanges, so they lose the possibility of further financing and are forced to grow slower and frequently reduce the volume of production.

The problem that is very shortly afterwards linked to the previous, already multiplied problems, relates to social aspect and higher unemployment rate. That problem is a stroke to macroeconomic stability of every country. Analysing the unemployment rate in the USA for the period between 2006 and 2008, it can be concluded that it was between 4.5% and 5%. Due to a powerful stroke of global economic crisis that affected real economic sector in March 2009, there was a wave of dismissal. In the countries of G8, the unemployment rates in 2009 were the highest after World War II. In the USA, 3.2 million people lost their jobs during 2009, which was 7.2%. In Canada, the unemployment rate is 6.6%, i.e. 0.1 million employees. In the EU, the rates range from 8.2% in France (0.2 million people) to 6% in the Great Britain (0.3% people). In Japan, the unemployment rate is 3.1% and in Russia 6.1%. The highest unemployment rate is in China (9.4% in the cities) due to the fact that 10 million seasonal workers lost their jobs.

The negative influence can also be perceived through economic growth. Regardless of the fact that it was announced that the USA came out of recession in November 2009, the signs of recovery were mere sparkles and showed no long-term character. The burning problem was identified in the countries of Central and Eastern Europe and we are witnesses that the IMF has significantly corrected the expected rate of growth several times. According to what the IMF presents us, the only possible to unambiguously conclude, given the controversial opinions about the crisis of both professional and scientific communities, is that recovery will not have the same scenario in all the regions.

¹⁷ Ana Anufrijević "Finansijska arhitektura osiguravajućih kompanija" Revizor br 50/2010 pp. 47-60

¹⁸ <http://www.nspm.rs/ekonomska-politika/uzroci-i-moguci-koncepti-resavanja-svetske-finansijske-krize.html?alphabet=1>

The negative influence of the crisis can also be perceived in corporate management, although the connection can be seen in two different ways – that the corporate management is one of the causes of the crisis, such as globalisation, excessive borrowing or free market that we previously discussed. When we speak about the current crisis, the assumptions regarding this problem are not in connection with the "expropriation" of shareholders and poor monitoring of management, but with (mis)understanding of more and more complex and geographically (often continentally) wide-spread way of doing business. A study by OECD¹⁹ has shown that there are clear and chronic models of behaviour (long mandates of managing directors, the asymmetry and concentration of power in the hands of one executive director, passivity of non-executive directors, low level of financial expertise in the boards of financial institutions) that contributed to the emergence of the crisis on the one hand and its deepening on the other.

In November 2010, in its semi-annual report, OECD concluded that due to the slow recovery of American economy, the global economic recovery was also slowing down. In the same report it was stated that several factors indicated that the forecasts should have been additionally worsened due to currency tensions and possible debt crises in Europe. The OECD report predicts that the global economic growth in 2011 will decline to 4.2% from 4.6% in 2010 and that it will reach the rate from 2010 only in 2012. For comparison's sake, the global growth of 4.6% in 2010 and 4.5% in 2011 was forecasted in May 2010, while the forecast for 2012 had not been released then. The same report forecasts that in the USA there will be an economy growth of 2.7% in 2010, 2.2% in 2011 and 3.1% in 2012. Only six months prior to that, OECD had estimated that the largest world economy would have recovered from the deep recession from 2009, growing for 3.2% in 2010 and 2011.²⁰ Talking about the Eurozone, OECD expects that it will achieve the economic growth of 1.7% in 2010 and 2011, while their governments are trying to reduce budget spending and some of the members, such as Greece and Ireland, are fighting against indebtedness.

As the crisis deepened in Eastern Europe, we have seen problems of filling in "holes" in the budgets of the countries in the region. The countries of Eastern Europe resort to a variety of protective measures that should provide the necessary means. The most frequently it is VAT and other specific taxes enhancement, such as property tax or abolition of tax exemptions and excise. In this moment, the fact is that the recovery from the crisis will graphically resemble more U than V curve and that there will be a certain period of stagnation.

What is undoubtedly possible, of course if neoliberalism lets it and if the states have enough courage to tackle the problem, are two courses of action:

- Taxing speculative transactions instead of paying VAT and tax bases; and
- Creating a strong institutional frame for the fragmentation of financial institutions.

As for the year behind us, there were four trends:

- State bankruptcies from Dubai to Greece and PIGS21 area
- Desturbing reports of credit-rating agencies for Great Britain and the USA;

¹⁹ OECD. (24 February 2010). Corporate Governance and The Financial Crisis - Conclusions and emerging good practices to enhance implementation of the Principles.

²⁰ <http://www.oecdobserver.org/news/categoryfront.php/id/591/General.html>

²¹ Portugal, Ireland, Greece and Spain

- Suggestions to Eurozone how to overcome public deficits; and
- Strengthening China, India, Saudi Arabia and the creation of new financial giants - sovereign investment funds²².

3. SITUATION IN SERBIA – THE RESULTS OF THE PRIVATISATION PROCESS IN THE PERIOD BETWEEN 2002 AND 2010

Generally speaking, if we review the development of the Republic of Serbia, we can say that it significantly lags behind EU countries and it is in the group of European countries with the lowest level of development. One of the reasons is (un)successful process of privatisation that was carried out after all the successful privatization processes in the surrounding countries (Czech Republic, Slovakia, Poland, etc.). The process of privatisation in Serbia started in June 2001 with the package of laws (Privatization Law, the Law on the Privatization Agency, the Law on Share Fund) and, more importantly, for the first time in Serbia there were terms such as term and mandatory privatization.

The results of the privatization process are as follows:

- The total number of privatized companies prior to December 31, 2010 was 2.402.
- 1.581 companies with 130.214 employees were sold at auctions.
- The total revenue by auction sales method was 894 million EUR and obligatory investments were 203 million EUR.
- In the same period, 94 (so-called big companies) with 74.774 employees were sold by tenders.
- The revenue by tenders was 1.1 billion EUR and obligatory investments were 970 million EUR.

Also, as for the capital market, by the sale of shares of the Portfolio Shares Fund, and the withdrawal of the state involvement in private sector capital, 727 companies sold their minority packages and earned the revenue of 624 million EUR.

Table 1. An overview of sold enterprises in the Republic of Serbia in 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total 2002- 2010
Number of sold enterprises	211	637	237	317	279	312	275	94	40	2.402
Number of employees	37.320	76.889	38.808	58.931	45.383	44.612	27.104	9.119	2.008	340.174
In million EUR										
Selling price	320	840	154	371	239	426	253	49	19	2.671
Investment	320	320	100	99	150	103	62	25	1,5	1.180,5
Social program	146	128	3	0,0	0,0	0,0	0,0	0,0	0,0	277

Source: The report on the work of Department of Privatisation and Restructuring Management for 2010, February 2011, Belgrade

²² SWF Sovereign Wealth Funds

A large number of government economists believes that a necessary time distance is needed for the assessment of privatization effects, since empirically measurable effect of privatization is difficult to be isolated from other effects. The majority of privatised companies have still been in the zone of revival and also the privatisation process has not been finished for large business systems. The authors consider that so far privatisation, as the instrument for the promotion of efficient market operations of the economic system of Serbia, has not given the expected results and also created great social problems – the fact supported by the following arguments:

- The Law on Investment Funds should have been passed at the same time with Privatization Law.
- Companies that do not have a competent product in both domestic and foreign markets were sold. Instead of that, the imperative should have been to enhance the competence and then to privatise them.
- After the privatisation, a large number of employees were left without jobs, popularly proclaimed redundant, and quite simply thrown out into the street.
- The privatisation and foreign investments in Serbia have been associated with, to put it mildly, controversial cases, Galenika – 1990, Mobtel - 1994, Telekom - 1997, Putnik – 2003 and many more from 2002 to 2010 which were the subject of international arbitrations.

Our opinion is strongly supported by the number of terminated contracts and it is unbelievable - more than 600 terminated contracts, which means that more than 36% of the transactions were cancelled. And what should be done with those companies now?

4. THE SITUATION IN SERBIA – THERE IS AND/OR THERE AS NOT S SUSTAINABLE ECONOMIC DEVELOPMENT

And as in the famous Grimm brothers' fairy tale "Snow White and the Seven Dwarfs" where the evil queen asks her mirror the same question day by day, Serbia might also ask, "Mirror, mirror on the wall, tell me where Serbian economy is heading to?" It is not a fairy tale, but according to the black chronicle of everyday life that is directed by the global economic crisis, it is seen that the statistics that says that the achievements of transition are more like an eternal reconvalescent than like the results of implementing economic reforms has almost been ignored. Serbian economic scene witnesses that domestic market fundamentalists hide the increased state interventions in the economies in the USA and other capitalist countries, because they have no ready answer to the question why they are still talking about privatization. As if they were dumbstruck by the fact that they have no concrete solution, or even explanation of systemic crisis. Politically, it seems that most political leaders change their opinion over night, and that there are almost contradictory differences in the very measures taken by the state.

Previously, when private owners were also managers, private property was more effective than state property. Today, when there is a dispersion in big companies ownership (the biggest private shareholders possess only a few percents of the ownership), ownership and management have been separated. That problem is defined in economic theory as the problem of principal – agent. Due to that reason, privatisation does not guarantee that

a company from the less efficient form of ownership will change to a more efficient form of ownership²³.

The economic policy, based on the principles of Washington Consensus, has been present in Serbia solely in the interest of the world oligarchy that has enormous financial power. At the junction between building an adequate institutional infrastructure for a market economy, establishing the rule of law and creating conditions for competition and long-term sustainable economic growth, Serbian economists, under the veil of neoliberal economics, have chosen the road that leads to stabilization, liberalization and privatization - the Holy Trinity of Washington Consensus. In this way we have achieved the following economic indicators (these are the most important):

- GDP in 2010 was 1.5% and it is estimated that in 2011 it will grow to 3%.
- Industrial production in 2009 was reduced by 12% and it was about 15.5% lower than in 1998. In 2010, it grew by 2.9%. In the same year, comparing to the year prior to it, companies have recorded growth in retail trade turnover at current prices by 6.8% and in constant prices decreased by 1.2%.
- According to the competence, Serbia is on the penultimate 15th place out of 16 transitional countries of central and south-eastern Europe. There were both the absolute drop of the average competence mark from 3.9% in 2008 to 3.84% in 2010 and relative drop since it dropped from the 13th place in 2008 to the 15th place in 2010.
- Comparing to previous year and autumn 2010, 0.6% less wheat was planted and comparing to the ten-year average autumn sowing (2000-2009) surface is less by 16.2%.
- In 2010, the budget deficit amounted to 107.7 billion dinars. The revenues were 662 billion and expenditures amounted to 769.7 billion dinars. In December, the deficit was 12 billion dinars.
- Serbian debt was 12.13 billion euros at the end of January 2011, which is 38% of gross domestic product (GDP).
- According to the Bankruptcy Supervision Agency 691²⁴ companies activated a bankruptcy procedure in Serbia in 2010, out of which 375 were state companies and 316 private ones. The total number of 1447 bankruptcy cases have passed through the evidence, which was synchronized in 2005 after the reform of bankruptcy law.
- The number of poor amounted to 700.000 and it is growing. Bearing in mind the fact that the number of the unemployed has been increasing, that the pensions and salaries of a large number of people are frozen and that inflation has been high – the living standard of huge number of people has been declining.

The current sale of Telekom is just another link in the series of errors and/or successful ventures that our economic experts will make. Dominant telecommunication operators are public in Norway, Italy, Finland and Switzerland. The possible sale of Telekom will jeopardize the strategic infrastructure used for information of the army, police and other

²³ Stamatovic M., Radonjic S., Anufrijeva A. "The World Economic Crisis Impact on Serbia in the Context of its Association With the European Union" "Facta Universitatis", series for Economic and Organization Vol 7, No 1, 2010 p. 11

²⁴ This information relates to the bankruptcy of the real economy sector. For financial sector, the Bankruptcy Supervision Agency has no relevant information. The Deposit Insurance Agency was appointed for the trustee in financial sector so the number is not final.

governmental institutions. From the other hand, the state will be left without the revenue of Telekom which amounts to a billion euro and the sale can negatively influence domestic industry development. However, Serbian economy, like an old lady, sells the remaining silver last, but whether it is good and/or wise depends only on the price to be achieved in the market in which the economic crisis is still raging.

Is there salvation? The light at the end of the tunnel, as the solution for Serbia, is the development of agriculture. All the agro-business analyses show that agrar budget should be bigger, since the agricultural export was \$2 billion in 2010. According to the study "The effects of tax liberalization on the agriculture of the Republic of Serbia" carried out by USAID agro-business in cooperation with the Ministry of Agriculture and SEEDDEV (South East Europe Development) in December 2010 and which was presented at the Conference on January 20, 2011, emphasizes that Serbia should immediately start raising the competitiveness and organization, i.e. organising farmers in cooperatives, associations and cooperations. Only then will Serbia be ready for 2014 when full liberalization of trade of agricultural and food products will become effective²⁵. For example, the production of sunflower is one of the industries where Serbia has better yield than EU countries. It has a sufficient level of competition in the purchase of sunflower, which guarantees the benefit of producers. However, there is a certain number of market anomalies that distort competition and that should be corrected as soon as possible. Edible sunflower oil is one of few products Serbia has not liberalized its tariffs with the EU and it is 30%. Serbia trades raw and edible oil and sunflower. Raw oil trade is the biggest and amounts to \$3 billion. The value of oil trade has grown since 2005. The largest importers are: Turkey, Holland, Germany, Spain and Italy. The raw oil trade has also been growing recently. The largest importers are: Great Britain, Belgium and Germany.

Except the EU and CEFTA regions, a considerable breakthrough of agriculture products can be made in the markets of the Middle East. The EU market absorbs almost a half of total agricultural export from Serbia. The surplus in trade notes a tendency to rise, so the \$221.8 million in 2006. reached \$667.9 million in 2010. The balance of trade of the agricultural and food industry of Serbia with CEFTA countries in 2010. indicates a sum of \$964.4 million, which is the increase of 7.8% comparing to 2009. The surplus in the foreign trade of agricultural and food products in 2010. was \$710.2 million. However, it can be even higher if the agriculture becomes a strategic national interest. Regardless of the surplus, the yield per hectare does not show a high level. For example, in 2010, wheat yield was 3.37 tonnes per hectare, while in 2009, the yield had been 3.6 tonnes per hectare. Ireland, Great Britain, Holland and Belgium have the yield of 8 tonnes per hectare.

The report emphasizes potential competitive advantages of Serbia in the field of sugar production that can be seen in the following:

- Sugar production is stable and significantly contributes to the wealth of producers, companies, as well as to macroeconomic stability.
- The world trends are completely in favour of Serbian producers that generate numerous opportunities for increasing exports.

²⁵ http://www.agrobiznis.net/serbian/documents/RS_Efekti%20liberalizacije%20na%20poljoprivredu%20Srbije%20VERZIJA%20ZA%20STAMPU.pdf

- There is almost no danger to the increase in imports, not only because the liberalization has occurred, but also because Serbia has significantly increased its competitiveness and sugar prices in the world are extremely high.

About 44% of the population of Serbia live in rural areas. If the OECD measurement methodology was applied to the rural population, the percentage would increase by another 10%. According to this criterion, Serbia is one of the most rural countries in Europe. Agriculture is the activity that contributes to gross national income of Serbia with more than 10% and produces raw materials for processing industry, which then adds approximately 25% to the total income. According to the share of agriculture in creating wealth, Serbia is one of the most agricultural countries in Europe, Albania, Moldova and Bosnia being the competition. However, in order to ensure the sustainable development of agriculture, in addition to turning to it, the measures such as the following are highly necessary: an increase in export subsidies that now amount to 5%, an agricultural bank which would adapt its credit policy to the demands and abilities of agricultural producers, finding incentives from long-term arrangements with foreign partners to guarantee the contracted delivery of goods.

CONCLUSION

The economic reality today has been shaken by the great economic and financial crisis of 2008 which is reflected in all social segments. Although everybody knows how, where, when and why the crisis started, nobody knows when it will finish and what its consequences on our society will be. Historically, the world has been shaken by economic crises since the first stock exchange and complex financial systems emerged.

Globalization, which has been proclaimed for years, has increased the interdependence of population and the need for collective action, but regardless of that, it has brought more harm than benefit to many people. Liberalisation, transition, deregulation and privatisation have brought many countries into a debt crisis.

Future economy must be based on real values. The precondition is to get rid of so-called "virtual" economy which means that a certain sum of financial assets does not exist. On the other hand, it also means that many will be left with considerably less values than they think they possess.

As for Serbia, unfortunately, it sacrificed domestic banking system in transitional reforms and the privatization has been poorly carried out, so a great part of the assets of the population ended up in the hands of new or old rich people. Is there salvation for Serbia? All Serbian parameters and resources clearly prove that it can be the biggest agricultural country in the region. Regardless of the fact that Serbia exports agricultural products in the amount of \$2 billion, that has a surplus of \$650 million and that export is increasing, Serbia does not do anything in the field of investment in its agriculture and the results would be much better if it had a national routemap that would promote the development of this sector. If we talk about the size of the export per arable portion of land in Europe, the facts prove that Serbia is in the very bottom of the list (followed by Bosnia, Albania and Romania) according to the export per hectare which amounts to 446\$. Our export growth of 20% per year is less than that of other countries. The surplus in agricultural trade is not due to large exports (which could be like that, according to all the resources), but low imports due to poor living standards.

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NEOLIBERALNI KAPITALIZAM KROZ ZAVESU EKONOMSKE KRIZE

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Istorijat kapitalizma poznaje različite faze. Neoliberalizam je poslednja. To je potpuno novi oblik kapitalizma, tačnije njegova reinkarnacija karakterističan po svojoj nasilnosti. Može se reći da je započeo 1979. godine sa Volker Stop povećanjima, ali i pučem u Čileu i Argentini 70-tih godina XX veka, ili sa vladom Margaret Tačer u Britaniji i Ronalda Regana u SAD. Žarište neoliberalizma su SAD u kojima je finansijalizacija i finansijska hegemonija dostigla svoj vrhunac, bazirajući se na pretpostavci da slobodno tržište, kao samoregulišući sistem snagom svoje "nevidljive ruke" efikasno raspodeljuje resurse i osigurava narodima sveta mir i blagostanje. Međutim ova doktrine nije zaobišla ni zemlje Istočne Evrope, jer je u njima proklamovana kao sveto trojstvo Vašingtonskog

koncenzusa – liberalizacija, deregulacija i privatizacija. Dakle, neoliberalni tržišni fundamentalizam svodio se na glorifikaciju tržišta i eliminisanje državnog nadzora nad ekonomijom.

Da li je svetska ekonomska kriza kraj ovog hegemonističkog ekonomskog sistema? Trenutna ekonomska kriza je prouzrokovana krizom drugorazrednih hipotekarnih kredita koja je dovela do pucanja hipotekarnog balona. Ona je počela tokom 2006. godine strukturnom krizom zbog hiperprodukcije u automobilske industriji i krizom tržišta nekretnina u SAD. Rapidan sunovrat napumpanih cena stambenih i poslovnih objekata, doveo je do pada vrednosti nekretnina i samim tim ugrozio hipotekarni sistem i sve njegove derivate, čije su postojanje osiguravale upravo nekretnine kojima je vrednost devalvirala. Pored toga tri američke, kao i neke evropske i japanske, automobilske kompanije su doživele nagli pad prodaje. Dakle, kriza o kojoj se pune dve godine govori i piše nije samo svetska finansijska kriza, već sveukupna kriza savremene civilizacije Zapada koja se prelila na sve delove sveta.

Kada je o Srbiji reč, ona se sa svetskom ekonomskom krizom susrela u vrtlogu vlastite krize u ekonomskoj, socijalnoj i političkoj sferi. Drugim rečima, lokalna i globalna kriza su se ukrstile i slile u opasan tok. U planovima i predviđanjima koja za cilj treba da imaju oporavak, ne smeju se zatvarati oči pred dramatičnim ekonomskim pokazateljima. Na žalost, mogućnosti oporavka s toga su, više nego skromne.

Ključne reči: *neoliberalni kapitalizam, hegemonija, privatizacija, makroekonomski pokazatelji.*